

DOCUMENTS ON BRITISH FOREIGN POLICY 1919-1939

EDITED BY

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PREFACE

TO VOLUME III, SECOND SERIES.

THE documents in this volume deal with two main subjects: reparation and disarmament. Part I (Chapters I-III) covers the period from December 28, 1931, to the signature of the Lausanne agreements on July 9, 1932, and the announcement on July 13, 1932, of the Anglo-French declaration regarding future European Co-operation. Chapter I continues the record of negotiations on the reparation question and deals in turn with the postponement of the Reparation Conference proposed for January 1932; Dr. Brüning's statement of German policy with regard to reparation payments; the Anglo-French discussions consequent upon this statement; the refusal of the German Government to agree to a continuation of the 'Hoover mechanism'; the formula, accepted on February 12, 1932, announcing the date and object of the Conference to be held at Lausanne.

Chapter II is concerned with the internal position in Germany from mid-February to mid-June 1932; the fall of Dr. Brüning's administration and the appointment of Herr von Papen as Chancellor; Anglo-French discussions before the opening of the Lausanne Conference.

Chapter III includes the stenographic reports of the five plenary sessions of the Lausanne Conference (June 16-July 9, 1932) and reports of forty-six private meetings and conversations at which Mr. Ramsay MacDonald, as President of the Conference, or other members of the United Kingdom Delegation were present.

Part II (Chapters IV and V) covers the period from December 31, 1930, to the adjournment of the Disarmament Conference on July 23, 1932.

Chapter IV describes the preliminaries of the Disarmament Conference; the appointment of a Chairman; discussions of the possible postponement of the date of opening of the Conference.

Chapter V records Anglo-French and Anglo-American conversations in March and April 1932; meetings between the Delegates of the United Kingdom, France, and the United States, particularly between June 18 and 30 at the Disarmament Conference: discussions arising out of the German claim to 'equality of rights'. The material in this chapter is taken as far as possible from sources hitherto unpublished; it therefore supplements the records of the proceedings of the Disarmament Conference published under the authority of the League of Nations.

Appendices I, II, and III contain documents relating to the Reparation Conference. Appendix IV is a memorandum on the German military breaches of the Treaty of Versailles. Appendices V and VI contain documents or records of speeches on Disarmament.

As was explained in the general preface at the head of Volume I of the Second Series of this Collection, the Editors have been given unreserved

access to the whole of the Foreign Office archives and complete independence both in the general planning of each series and in the choice and arrangement of documents. They therefore take full responsibility for the selection which they have made.

The selection and arrangement of the documents in this volume have been carried out by Professor Woodward with the help of the Hon. Margaret Lambert, Ph.D., in the later stages of the work. The co-operation of the staff of the Reference Room of the Foreign Office Library has again been most valuable. I should like to thank Miss A. Norman, M.B.E., and Miss E. McIntosh, M.B.E., for secretarial assistance at different stages of the production of the volume.

E. L. WOODWARD

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PART I. REPARATION

CHAPTER I

Negotiations with regard to the postponement of the proposed Reparation Conference)

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
	1931		
1 MR. CAMPBELL Paris Tel. No. 248	Dec. 28	French views on the venue and date of the Conference.	1
2 SIR R. LINDSAY Washington Tel. No. 766	Dec. 28	Reports conversation with U.S. Secretary of State on the attitude of the U.S. Government with regard to their participation at the forthcoming Conference at The Hague.	1
3 SIR R. LINDSAY Washington Tel. No. 767	Dec. 28	Discusses the attitude of public opinion in America to war debts and reparations.	3
4 TO SIR H. RUMBOLD Berlin Tel. No. 235	Dec. 29	Lausanne and January 18 to be suggested to the German Government as place and time for the Conference.	4
5 SIR H. RUMBOLD Berlin No. 1074	Dec. 31	Analyses attitude of German Press to proposed Reparation Conference.	5
	1932		
6 TO SIR R. LINDSAY Washington Tel. No. 17	Jan. 5	Requests views as to procedure in view of trend of American opinion.	8
7 TO SIR H. RUMBOLD Berlin No. 9	Jan. 6	Records conversation with German Ambassador on Reparations.	8
8 SIR R. LINDSAY Washington Tel. No. 10	Jan. 6	Gives views on American opinion and emphasizes importance of getting the idea of cancellation of debts accepted in principle.	9
9 TO SIR R. GRAHAM Rome No. 18	Jan. 7	Reports conversation with Italian Chargé d'Affaires, who was informed of the British attitude with regard to reparations.	10
10 SIR H. RUMBOLD Berlin Tel. No. 2	Jan. 8	Reports interview with the German Chancellor, who informed him of Germany's inability to pay reparations.	12
11 The Prime Minister	Jan. 10	Statement issued in reply to German official statement on reparations in No. 16.	13
12 SIR H. RUMBOLD Berlin Tel. No. 8	Jan. 10	Inaccurate account by Reuter of Sir H. Rumbold's conversation with the Chancellor causes a disagreeable impression in Paris.	13

NO. AND NAME	DATE	MAIN SUBJECT	DATE
13 LORD TYRRELL Paris Tel. No. 8 Saving	Jan. 10	Reports French Press comments on Reuter message, and a message received from M. Flandin pointing out the effects of the Chancellor's declaration.	14
14 To LORD TYRRELL Paris No. 83	Jan. 11	Records conversation with French Ambassador on date of proposed Conference on reparations.	15
15 To SIR H. RUMBOLD Berlin Tel. No. 12	Jan. 11	Suggests that the Chancellor might let it be known that he had mentioned German intention to demand cancellation of reparations to the French Ambassador two days before he spoke of it to Sir H. Rumbold.	16
16 SIR H. RUMBOLD Berlin No. 22	Jan. 11	Communicates text of German official statement of January 9 on reparations.	17
17 To SIR H. RUMBOLD Berlin No. 44	Jan. 12	Records conversation with German Ambassador on Presidential election.	18
18 To SIR H. RUMBOLD Berlin No. 45	Jan. 12	Records conversation with German Ambassador on Dr. Brüning's declaration of January 9.	19
19 To SIR H. RUMBOLD Berlin No. 46	Jan. 12	Records conversation with German Ambassador on reparations policy of German Government.	20
20 SIR H. RUMBOLD Berlin Tel. No. 12	Jan. 12	Reports views of State Secretary that the excitement in Paris about Reuter's telegram is dying down and that any statement by the Chancellor would do more harm than good.	21
21 SIR H. RUMBOLD Berlin Tel. No. 13	Jan. 12	Reports that he has checked with State Secretary his interview with the Chancellor and confirmed the accuracy of his recollection. State Secretary made a slight modification in phrase used by the Chancellor in describing Germany's position.	22
22 LORD TYRRELL Paris Tel. No. 13 Saving	Jan. 12	Views of the French Ambassador in Berlin on German policy over reparations.	23
23 LORD TYRRELL Paris Tel. No. 14 Saving	Jan. 12	Reports that German Embassy is expecting M. Laval to make a protest against the Chancellor's declaration, but that M. Flandin thinks that he will content himself with a reply at Lausanne.	24
24 SIR H. RUMBOLD Berlin No. 27	Jan. 12	Analyses reaction in Germany to Dr. Brüning's statements on policy of German Government.	24
25 SIR H. RUMBOLD Berlin No. 28	Jan. 12	Reports decision of Nazis not to support prolongation of Hindenburg's presidential term.	27
26 To SIR H. RUMBOLD Berlin No. 56	Jan. 15	Records conversation with German Ambassador on reparations.	28

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
27 LORD TYRRELL Paris Tel. No. 21 Saving	Jan. 15	Reports that he has sounded M. Flandin privately on the proposals of H.M.G. and gives an account of his reactions and those of M. Laval.	29
28 To SIR R. LINDSAY Washington Tel. No. 38	Jan. 16	Discusses the connexion between reparation and war debts and requests views as to how best to treat the matter <i>vis-à-vis</i> America.	32
29 SIR H. RUMBOLD Berlin No. 38	Jan. 16	Reports conversation with the German Chancellor on the economic situation.	33
30 LORD TYRRELL Paris Tel. No. 7	Jan. 17	Reports conversation with M. Flandin, who expressed his and M. Laval's fears that Germany would declare herself unable to pay any more reparations. French Government would prefer not to have the conference at Lausanne but to grant another year's moratorium and to hold economic conference later when America might be able to participate.	35
31 LORD TYRRELL Paris Tel. No. 8	Jan. 17	Reports M. Flandin's statement on action he and M. Laval would be prepared to take regarding moratorium.	36
32 To LORD TYRRELL Paris Tel. No. 16	Jan. 18	Would prefer additional year of moratorium for Germany.	36
33 SIR R. LINDSAY Washington Tel. No. 28	Jan. 17	Senator Reed's views on the subject of war debts.	37
34 LORD TYRRELL Paris Tel. No. 9	Jan. 18	Reports conversation with M. Flandin, who explained his proposals with regard to moratorium.	38
35 To SIR H. RUMBOLD Berlin Tel. No. 21	Jan. 18	Explains position so far arrived at with the French Government as regards moratorium.	40
36 To SIR H. RUMBOLD Berlin No. 54	Jan. 18	Records conversation with German Ambassador on reparations when he inquired as to the views of the German Government on the application of the Hoover mechanism to a further year's moratorium.	40
37 To LORD TYRRELL Paris	Jan. 18	Letter from Secretary of State reviewing situation arising out of the difficulty experienced in reaching agreement with the French over the reparations question.	42
38 SIR R. LINDSAY Washington Tel. No. 30	Jan. 18	Considers it undesirable to approach the American Government on the subject of war debts until a settlement of reparations has been arrived at in Europe.	44

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
39 To SIR H. RUMBOLD Berlin No. 58	Jan. 19	Records conversation with German Ambassador, who said that his Government could not agree to the application of the Hoover mechanism.	45
40 SIR H. RUMBOLD Berlin Tel. No. 15	Jan. 19	Text of the German Government's reply to observations in No. 39.	46
41 SIR H. RUMBOLD Berlin Tel. No. 16	Jan. 19	German resentment at French insistence on maintenance of Hoover mechanism in regard to a further short moratorium.	47
42 SIR H. RUMBOLD Berlin Tel. No. 17	Jan. 19	Reports conversation with German Chancellor, who is most anxious that Lausanne Conference should not be adjourned to a date later than June.	48
43 SIR H. RUMBOLD Berlin Tel. No. 19	Jan. 20	Reports on financial and economic situation in Germany.	48
44 SIR H. RUMBOLD Berlin Tel. No. 20	Jan. 20	Attitude of the German Government to the questions at issue.	49
45 LORD TYRRELL Paris Tel. No. 12	Jan. 20	Reports that he has obtained from the French Ministers a modified formula. Transmits an invitation to Mr. MacDonald to visit Paris during the week-end.	50
46 LORD TYRRELL Paris Tel. No. 13	Jan. 20	Gives text of formula for a Franco-British declaration prolonging the moratorium and postponing the Lausanne Conference.	51
47 LORD TYRRELL Paris Tel. No. 14	Jan. 20	Reports M. Laval's anxiety that the Prime Minister should accept his invitation so that he can announce it in the Chamber to reassure French opinion.	53
48 To LORD TYRRELL Paris Tel. No. 21	Jan. 21	Explains that it is impossible for Mr. MacDonald to go to Paris for the week-end and urges that M. Laval should come to London instead. Comments on advance represented by latest formula.	54
49 To SIR H. RUMBOLD Berlin No. 68	Jan. 21	Reports conversation with the German Ambassador, to whom he pointed out the difficulties involved in the German Government's refusal to consider the application of the Hoover mechanism to a further short moratorium.	55
50 SIR H. RUMBOLD Berlin Tel. No. 3 Saving	Jan. 21	Reports conversation with Herr von Bülow, who explained his idea that the conference should be held on the basis of the Basle report.	56
51 SIR H. RUMBOLD Berlin Tel. No. 4 Saving	Jan. 21	Reports that he has requested Herr von Bülow to correct a tendentious statement in the German Press about the prolongation of the Hoover moratorium.	57

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
52 To SIR H. RUMBOLD Berlin Tel. No. 35	Jan. 22	Inquires if Germany would agree to extension for a year, or until December, of the moratorium on existing conditions provided the conditions were reconsidered at the June meeting.	57
53 To LORD TYRRELL Paris Tel. No. 27	Jan. 22	Explains that it is not intended to invite Dr. Brüning to London at the same time as M. Laval, but that if the proposed arrangement involves terms to which Germany has to give her adherence, she will have to be consulted before the arrangement is completed.	58
54 LORD TYRRELL Paris Tels. Nos. 16 and 17	Jan. 22	Explains position of M. Laval and reasons why it is unlikely that he will be able to go to London. Emphasizes importance of an Anglo-French agreement.	58
55 To LORD TYRRELL Paris Tel. No. 29	Jan. 23	Sets out essential concessions to which M. Laval must be pressed to agree.	60
56 SIR H. RUMBOLD Berlin Tel. No. 28	Jan. 23	Expresses doubt whether the German Government will accept the principle of a moratorium.	60
57 LORD TYRRELL Paris Tel. No. 20	Jan. 23	Formula proposed by M. Berthelot for the postponement of the Lausanne Conference.	61
58 To LORD TYRRELL Paris Tel. No. 30	Jan. 24	From Sir R. Vansittart expressing the view that Dr. Brüning may not accept M. Berthelot's formula.	61
59 LORD TYRRELL Paris Tel. No. 22	Jan. 24	M. Berthelot proposes a modification to his formula.	62
60 LORD TYRRELL Paris Tel. No. 23	Jan. 24	Text of modified formula proposed by M. Berthelot.	62
61 LORD TYRRELL Paris Tel. No. 24	Jan. 24	M. Berthelot suggests that if both Governments accept formula, Prime Ministers should meet in Paris on January 26.	63
62 To LORD TYRRELL Paris Tel. No. 31	Jan. 25	Prime Minister could go to Paris on January 25 if French Government accept proposed amendments to formula.	63
63 To LORD TYRRELL Paris Tel. No. 32	Jan. 25	Transmits formula with amendments considered essential by H.M.G.	64
64 LORD TYRRELL Paris Tel. unnumbered	Jan. 25	Explains French difficulties over acceptance of the formula as amended by H.M.G. Alternatives proposed by the French.	64
65 To LORD TYRRELL Paris Tel. unnumbered	Jan. 25	Prime Minister has decided not to go to Paris while there is still so much divergence of opinion.	65
66 To LORD TYRRELL Paris Tel. No. 34	Jan. 27	Gives reasons why the latest French version would not solve the fundamental issue.	65

	NO. AND NAME	DATE	MAIN SUBJECT	PAGE
67	SIR H. RUMBOLD Berlin No. 72	Jan. 27	Reports on effects on Franco-German relations of difficulties attending proposed conference.	67
68	To SIR H. RUMBOLD Berlin No. 107	Jan. 28	Records conversation with German Ambassador, who said his Government would like a conference in June and a period of suspension of reparation.	69
69	LORD TYRRELL Paris Tel. No. 26	Jan. 29	Reports long discussion with M. Berthelot on the proposed formulae.	70
70	LORD TYRRELL Paris Tel. No. 27	Jan. 29	Discusses the aims of H.M.G. and sets out the French position.	71
71	LORD TYRRELL Paris Tel. No. 28	Jan. 29	Gives the latest version of the formula evolved in his discussions with M. Berthelot.	73
72	LORD TYRRELL Paris Tel. No. 29	Jan. 29	Further invitation to Mr. MacDonald to go to Paris, if the formula is acceptable to him.	73
73	To LORD TYRRELL Paris Tel. No. 40	Jan. 30	French formula is being studied, but it is impossible for the Prime Minister to go to Paris on January 30.	74
74	SIR H. RUMBOLD Berlin No. 90	Feb. 2	Reports conversation with German State Secretary, who said that Germany desired an early meeting and refused to undertake more commitments, and was considering the submission of a memorandum on her economic and financial position.	74
75	To SIR H. RUMBOLD Berlin Tel. No. 46	Feb. 5	Message from Sir R. Vansittart saying he is disturbed at the idea of a memorandum and instructs him to urge on the German Government necessity for discretion in this matter.	75
76	To LORD TYRRELL Paris No. 330	Feb. 6	Explains policy of H.M.G. regarding formulae and ends with instructions to resume negotiations on these lines.	76
77	SIR H. RUMBOLD Berlin Tel. No. 43	Feb. 6	Reports action on instructions in No. 75. He was informed that no decision had been taken.	79
78	SIR J. SIMON Geneva No. 11	Feb. 8	Record of a conversation between Sir J. Simon and Dr. Brüning on the subject of reparation.	80
79	SIR H. RUMBOLD Berlin No. 97	Feb. 9	Comments on memorandum by financial adviser on the financial situation in Germany.	82
80	LORD TYRRELL Paris Tel. No. 32 Saving	Feb. 9	Reports that he has explained in detail to the French Ministry for Foreign Affairs the decisions reached by H.M.G. on the reparation question.	83

NO. AND NAME	DATE	MAIN SUBJECT	PAGE
81 LORD TYRRELL Paris Tel. No. 33 Saving	Feb. 9	Proposed publication of statement giving French estimate of German reparation deliveries.	86
82 To LORD TYRRELL Paris Tel. No. 51	Feb. 10	Message from Sir R. Vansittart regarding a 'gentlemen's agreement' to maintain tranquillity, which should be kept secret.	87
83 LORD TYRRELL Paris Tel. No. 34 Saving	Feb. 10	Reports that M. Berthelot has informed him of M. Laval's acceptance of the reparation formula decided upon by H.M.G.	87
84 LORD TYRRELL Paris Tel. No. 35 Saving	Feb. 10	Reports observations of M. Berthelot respecting French estimate of German reparation deliveries.	89
85 To H.M. Consul Geneva Tels. Nos. 127 and 128.	Feb. 11	Message from Sir R. Vansittart to the Secretary of State giving views on No. 83. Importance of approach to other Powers concerned.	89
86 LORD TYRRELL Paris Tel. No. 33	Feb. 11	Addressed to Geneva (No. 1). Informs Secretary of State of M. Laval's acceptance and agreement that other Powers should be informed immediately.	90
87 To H.M. Consul Geneva Tel. No. 134	Feb. 11	Message from Sir R. Vansittart to Secretary of State commenting on the form of the agreement.	91
88 LORD TYRRELL Paris Tel. No. 36 Saving	Feb. 11	Reports interview with M. Laval and discussion of the formula and of the question of the surtax which the French have now taken off coal.	91
89 LORD TYRRELL Paris Tel. No. 34	Feb. 11	Reports conversation with M. Berthelot on the position of France and Great Britain <i>vis-à-vis</i> Germany.	94
90 H.M. Consul Geneva Tel. No. 56 L.N.	Feb. 12	Message from Secretary of State for Sir R. Vansittart reporting his interview with Herr von Bülow regarding the formula. Signor Grandi agrees.	96
91 H.M. Consul Geneva Tel. No. 57	Feb. 12	Text of formula as communicated to other Governments.	96
92 H.M. Consul Geneva Tel. No. 58 L.N.	Feb. 12	Message from Secretary of State to Sir R. Vansittart informing him of wish of French Government to publish the agreement in Paris as a purely Anglo-French agreement instead of a multilateral one. M. Tardieu informed that this was impossible as all Governments including Germany were ready to accept formula.	97
93 H.M. Consul Geneva Tel. No. 59	Feb. 12	Message from Secretary of State to the effect that German Government were willing to accept the formula submitted to them and were anxious to secure immediate meeting of the conference.	98

CHAPTER II

German internal affairs: the fall of Dr. Brüning's administration: Anglo-French discussions before the Lausanne Conference

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95	SIR H. RUMBOLD Berlin No. 146	Mar. 1	Reports conversation with General Hammerstein on prospects of presidential election.	101
96	SIR H. RUMBOLD Berlin No. 197	Mar. 16	Reports on results of first presidential ballot.	103
97	SIR H. RUMBOLD Berlin No. 218	Mar. 24	Reports on reaction among Nazis of presidential election.	108
98	SIR H. RUMBOLD Berlin No. 255	Apr. 13	Reports on results of second presidential ballot.	110
99	SIR H. RUMBOLD Berlin No. 258	Apr. 13	Reports conversation with Herr Weismann on the forthcoming elections for the Prussian Landtag and similar elections in other parts of Germany. Growth of Hitler's movement. General Groener's views.	113
100	SIR H. RUMBOLD Berlin No. 268	Apr. 16	Reports on the dissolution of all 'quasi-military organizations' of the National Socialist Party.	114
101	SIR H. RUMBOLD Berlin No. 281	Apr. 20	Transmits report by the Military Attaché on the feeling amongst officers in the Reichswehrministerium towards the Nazi cause.	118
102	SIR H. RUMBOLD Berlin No. 278	Apr. 20	Reviews political situation on eve of Prussian and other State elections.	119
103	Great Britain and the United States	Apr. 23	Record of a conversation at Geneva on April 23, on reparation and the prospect of assuaging Franco-German disagreement.	123
104	SIR H. RUMBOLD Berlin No. 293	Apr. 23	Reports conversation with Herr Weismann about the National Socialist Party.	124
105	SIR R. LINDSAY Washington Tel. No. 193	Apr. 25	Reports conversation with Mr. Parker Gilbert on Anglo-French differences over reparation. American attitude to the matter.	125
106	SIR H. RUMBOLD Berlin No. 303	Apr. 27	Comments on Prussian and other State elections.	126
107	SIR R. LINDSAY Washington No. 724	Apr. 27	Analyses present state of public opinion on the question of debts and probable reaction to settlement of reparation.	130

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108 SIR H. RUMBOLD Berlin	May 4	Letter to Sir O. Sargent stating that M. François-Poncet is credited with a suggestion for a bargain between France and Germany.	135
109 SIR H. RUMBOLD Berlin Tel. No. 91	May 12	Comments on the Chancellor's speech in the Reichstag on May 11.	136
110 SIR H. RUMBOLD Berlin Tel. No. 92	May 12	Points out that as Lausanne Conference approaches the Chancellor's attitude towards reparation, inter-governmental debts, and disarmament is becoming more definite.	137
111 MR. R. H. CAMPBELL Paris	May 13	Letter to Sir O. Sargent stating that he considers it unlikely that the idea of a political truce will be raised by France.	137
112 TO SIR H. RUMBOLD Berlin No. 538	May 14	Records conversation with Baron von Neurath relative to Dr. Brüning's speech of May 9 on the subject of reparation.	139
113 MR. NEWTON Berlin No. 376	May 26	Reports conversation of member of Embassy's staff and a friend of General Groener on circumstances of the General's resignation.	140
114 MR. NEWTON Berlin Tel. No. 101	May 30	Reports resignation of Dr. Brüning's Government.	143
115 MR. NEWTON Berlin Tel. No. 102	May 30	Reports on nature of interview between President and Dr. Brüning.	144
116 MR. NEWTON Berlin No. 396	May 31	Reports on circumstances attending fall of Dr. Brüning.	144
117 SIR R. LINDSAY Washington Tel. No. 246	June 1	Reports conversation with Mr. Stimson on the importance of Anglo-French co-operation at Lausanne.	147
118 MR. NEWTON Berlin Tel. No. 107	June 2	Reports composition of von Papen Government.	149
119 MR. NEWTON Berlin Tel. No. 109	June 2	Reports on reaction of Centre Party to fall of Dr. Brüning.	149
120 SIR H. RUMBOLD Berlin Tel. No. 113	June 3	Reports conversation with Herr von Neurath on his appointment as Minister for Foreign Affairs.	149
121 SIR H. RUMBOLD Berlin Tel. No. 114	June 3	Reports on efforts of Herr von Papen to pacify Centre Party.	151
122 SIR H. RUMBOLD Berlin Tel. No. 115	June 4	Reports on confusion which prevails in political matters.	151
123 SIR H. RUMBOLD Berlin Tel. No. 118	June 6	Reports advice given to Baron von Neurath as to the presentation of the German case at Lausanne.	152

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125	TO LORD TYRRELL Paris No. 1211	June 6	Records conversation of June 6 with M. de Fleuriau on the subject of reparation.	157
126	TO LORD TYRRELL Paris Tel. No. 113	June 6	Transmits message for M. Herriot suggesting the line he should take in his ministerial declaration.	159
127	SIR H. RUMBOLD Berlin Tel. No. 19 Saving	June 7	Reports Herr von Bülow's concern at the attitude of the British Press.	160
128	TO BARON VON NEURATH	June 9	Letter from Secretary of State transmitting personal suggestions regarding a political truce.	161
129	SIR H. RUMBOLD Berlin No. 428	June 9	Reports on political factors leading to fall of Dr. Brüning's Government, and the subsequent position.	162
130	SIR H. RUMBOLD Berlin No. 429	June 9	Reports Press comment on new Government, and reviews possible developments.	168
131	SIR H. RUMBOLD Berlin No. 430	June 9	Reports interview with Dr. Brüning, who expressed approval of the appointment of Baron von Neurath.	170
132	SIR H. RUMBOLD Berlin Tel. No. 123	June 11	Reports German Government's comments on proposed joint declarations to be made by the Powers at Lausanne.	171
133	LORD TYRRELL Paris Tel. No. 78	June 11	Message from the Secretary of State addressed to British Ambassadors at Washington, Berlin, and Rome, informing them of the lines on which it is proposed to work at Lausanne.	172
134	Great Britain and France	June 11	Notes of a meeting held in Paris.	173
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141 Great Britain and Germany	June 20	Notes of a Conversation.	228
142 Great Britain and France	June 21	Notes of a Conversation. <i>Annex to No. 142</i> French note for the British Delegation.	232 242
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PART II. DISARMAMENT

CHAPTER IV

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199	To SIR R. LINDSAY Washington Tel. No. 23	Jan. 9	Explains functions of proposed President and Vice-Presidents and desirability of having an American Vice-President.	451
200	SIR R. LINDSAY Washington Tel. No. 22	Jan. 10	Mr. Marriner explains the President's objections and fears that Conference will fail.	452

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208 To SIR H. RUMBOLD Berlin No. 425	Apr. 23	Transmits, for the Ambassador's comments, a memorandum drawn up with a view to stating how far it will be possible to meet German views at the Disarmament Conference.	459
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210 SIR H. RUMBOLD Berlin No. 351	May 8	Transmits comments on Foreign Office Memorandum of April 23 (No. 208).	464
211 SIR R. GRAHAM Rome Tel. No. 127	May 21	Expresses Signor Mussolini's satisfaction at choice of Mr. Henderson to preside over the Disarmament Conference.	468
212 MR. A. HENDERSON Geneva No. 18	May 23	Reports conversation with M. Briand regarding the preparation of a programme for the Conference.	468
213 LORD TYRRELL Paris No. 762	July 15	Transmits French Government's Memorandum on the Disarmament Conference.	469
214 LORD TYRRELL Paris No. 765	July 16	Transmits copy of a note communicated by the French Ministry for Foreign Affairs, dated July 13, 1931, respecting the probable German attitude at the Disarmament Conference.	480

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216	MR. CAMPBELL Paris Tel. No. 206	Sept. 7	Reports speech by M. Dumesnil, French Minister for Air, on the anniversary of the Battle of the Marne, in which he stated the French attitude towards disarmament.	486
217	LORD CECIL Geneva No. 63	Sept. 11	Transmits record of a conversation with the United States Minister at Berne respecting disarmament.	487
218	LORD CECIL Geneva No. 107	Sept. 28	Transmits copy of a memorandum by Mr. Cadogan of September 23, respecting a conversation with Herr Frohwein on the subject of disarmament.	489
219	SIR H. RUMBOLD Berlin No. 788	Oct. 9	Transmits copy of a memorandum by the Military Attaché giving an extract from a recent article by General Groener in which he claims for his country complete equality of privilege, both to security and as to methods of disarmament.	491
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223	SIR H. RUMBOLD Berlin No. 1016	Dec. 11	Transmits record of conversation between the Military Attaché and the Reichswehr Representative on the League of Nations. Discusses views expressed therein.	497
224	To H.M. Representatives at principal Missions in Europe and Washington Circular Tel.	Dec. 16	H.M.G.'s views as to procedure at the Disarmament Conference.	498
225	SIR R. LINDSAY Washington Tel. No. 747	Dec. 17	United States attitude to the question of postponement and procedure.	499
226	MR. ADDISON Prague Tel. No. 1 Saving	Dec. 17	Reports that Dr. Beneš is prepared to attend Conference but considers moment inopportune.	500
227	To SIR H. RUMBOLD Berlin No. 1320	Dec. 18	Reports conversation with the German Ambassador, who said that the German Government could not propose or even contemplate postponement of the Conference in view of the effect on German public opinion.	500
228	SIR H. RUMBOLD Berlin Tels. Nos. 243 and 244	Dec. 18	Reports discussion on procedure for the Conference with German State Secretary.	501

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230 SIR R. GRAHAM Rome Tel. No. 17 Saving	Dec. 18	Reports that the Italian Government entirely share the views of H.M.G. both as to date of Conference and procedure.	502
231 MR. BROADMEAD Warsaw Tel. No. 7 Saving	Dec. 19	Reports that Polish Government agree as to date and procedure.	503
232 SIR F. LINDLEY Tokyo Tel. No. 259	Dec. 24	Reports that Japanese are most anxious that Conference should proceed as soon as possible.	503
233 To SIR H. RUMBOLD Berlin No. 106	1932 Jan. 28	The German Ambassador has been informed of the proposed programme for the opening of the Conference.	503
234 To SIR H. RUMBOLD Berlin No. 132	Feb. 5	Reports conversation with the German Ambassador, who informed Sir J. Simon of the plans of Dr. Brüning and Herr von Bülow.	504

CHAPTER V

The Disarmament Conference I: February 2-July 23, 1932

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263 To MR. PATTESON Geneva Tel. No. 424	July 4	Message from the First Lord of the Ad- miralty to Sir J. Simon deprecating private naval conversations until the British pro- posals have been published.	582
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266 MR. PATTESON Geneva Tel. No. 302 L.N.	July 20	Repeats to Foreign Office telegram addressed to Berlin by Secretary of State regarding the amendments which the German Government want inserted in the resolution before they will accept it.	586
267 SIR H. RUMBOLD Berlin Tel. No. 161	July 21	Reports conversation with German Minister for Foreign Affairs who explained reasons for voting against the resolution. Cabinet decision had been taken in the matter and must stand.	587
268 SIR H. RUMBOLD Berlin Tel. No. 164	July 21	Reports that he suggested to German Minister for Foreign Affairs that German Delegate could abstain from voting on the resolution, but received no satisfactory answer.	588
269 SIR H. RUMBOLD Berlin Tel. No. 165	July 21	Reports information by U.S. Counsellor of statement made to Mr. Gibson by Herr Nadolny that he had said to Sir J. Simon he would not only vote against resolution if German amendments were not accepted, but would announce that Germany would decline to collaborate further with Conference.	588
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PART I
REPARATION

CHAPTER I

Negotiations with regard to the postponement of
the proposed Reparation Conference
(December 28, 1931–February 12, 1932)

No. 1

Mr. Campbell (Paris) to Sir J. Simon (Received December 28)*

No. 248 Telegraphic: by telephone [C 9663/29/62]

PARIS, December 28, 1931

Ministry of Foreign Affairs have raised in following form question of arrangement for forthcoming conference.

2. January 20 is the only date possible for Reparations Conference as the French Parliament does not reassemble until the 12th and M. Laval will be unable to absent himself before the 20th. Reparations Conference will be followed by 66th session of the Council of the League of Nations at Geneva on January 25 and the Disarmament Conference on February 2. For Reparations Conference French Government express themselves in favour of The Hague as being most convenient for British Ministers owing to proximity to London but as this conference will not be finished by February 2 leading Ministers, who will also be attending Disarmament Conference, will be obliged to go direct from The Hague to Geneva. Ministry ask whether it would not be infinitely more practical to hold all meetings at Geneva, or, if preferred, Reparations Conference at Lausanne and the Council meeting and Disarmament Conference at Geneva?

3. I will reply shortly to your telegram No. 338.¹

¹ Not printed: In this telegram of December 26 Lord Tyrrell was asked which French Ministers were proposing to attend the Conference.

No. 2

Sir R. Lindsay (Washington) to Sir J. Simon (Received December 29)

No. 766 Telegraphic [C 9714/172/62]

WASHINGTON, December 28, 1931

Secretary of State sent for me to his private house early this morning. He referred to a conversation he had had with me on December 24 (see my

has been interpreted in England and France as indicating that, in view of the American attitude, a final solution of the reparation problem is no longer attainable, and the press in both countries is already speaking of a simple prolongation of the existing moratorium by three to five years. Though London officially denies the existence of any such agreement with France, Reuter is now saying that the conference will only have a limited scope, that reparations and war debts are inseparable, and that, in the event of America's non-participation, the conference would not be able to deal with the question of war debts. 'The German Government', the newspaper goes on to say, 'is not in a position to share these views, all the less so as the moratorium, according to French ideas, would not extend to the whole of the Young payments, but merely cover the conditional annuities, while the unconditional annuities would be commercialised as in the case of the Hoover year. Indeed, the French view goes further. Germany is to execute a special programme of deliveries in kind in favour of France and other "suffering" European States. If the bankers' report and the experts' report mean anything at all, they mean that Germany is not in a position to make any payments whatsoever. For that matter we do not regard the attitude of the American Government as by any means so negative as the resolutions of Congress would indicate. Germany's standpoint at Lausanne is simple to the last degree. It is indicated by the force of facts. German payments in any shape or form are out of the question. World opinion has been sufficiently aroused by the world crisis to understand Germany's position this time.'

4. The semi-official 'Diplomatic Political Correspondence' states that a provisional settlement would merely evade the difficulty for the moment and effectively prevent the restoration of confidence throughout the world. It is precisely that confidence of the different countries, both in each other and in themselves which alone can relieve the economic drought. Uncertainty as to what will happen after the provisional settlement would also render Germany's internal situation difficult as it would provide the radical elements in the country with fresh ammunition for agitation.

5. This fear that a provisional settlement would play into the hands of the Nazis, who may be deprived of one of the great planks on their platform by a final solution, is shared by numerous newspapers in the provinces, and particularly by the 'Frankfurter Zeitung'.

6. The 'Frankfurter Zeitung' at the same time understands that neither France nor England are anxious to take the initiative in bearding their American creditor. For that reason, it observes, Anglo-French negotiations appear comprehensible enough, their aim being presumably to discuss ways and means of notifying Washington of the cessation of inter-Allied payments without arousing too great a commotion in America. Each country hopes, no doubt, that the other will take the first step.

7. It is hardly necessary to report that the Nationalist and Hugenberg newspapers are admonishing the Government to stand fast and abide by their repeated declarations that Germany cannot and will not continue to make reparation payments. The reconstruction of France, 'Der Tag' points

out, has long since been completed. The country is saturated with prosperity and it is time that the idea of tribute for the late war was definitely dropped as between victor and vanquished.

8. More important is the attitude of the Social Democratic party and of the other fulfilment parties. To put it briefly these have, one and all, gone over to the general or what was formerly the Nationalist view. Theodor Leipart, the chairman of the General Union of German Trades Unions, contributes an important article this morning to 'Vorwärts' in which he says that the time has come to speak once and for all on behalf of the German labour movement. 'For eleven years, labour in this country has demanded the simultaneous annulment of reparations and other war debts. To-day the German labour movement demands that reparations must first be abolished. Once this cause of political trouble is definitely removed, a change for the better will take place in Europe and this in turn will cause the United States to abolish the Allied war payments, especially if the Disarmament Conference comes to any positive results. The solution of the reparation problem will, in fact, be a signal that Europe has returned to sanity and to confidence in herself.'

9. Hitherto, the National Socialists have not expressed any view on the latest phase of the reparation problem. Appeals for a united national front appear to have not been without their effect on Hitler and his associates, more especially an appeal recently addressed by Bavarian Centre circles for a united national front in foreign policy. Dr. Kaas, the chairman of the Centre party, returns to the charge this morning in 'Germania' in a fervent but reasoned homily. He points out that aspirations for national freedom are not the monopoly of any political party and that the present situation calls for the concentration of all those forces capable and willing to undertake the work of reconstruction. To be or not to be is the question before Germany to-day. Those who have wandered off into the extreme camps should pause for a moment and consider national and international realities. 'What really divides us—and probably wrongly divides us—is not our divergent attitude towards the main goal of Germany's freedom, but rather our divergent views on the real possibilities of the moment and the choice of methods with which to attain that goal.' The struggle between common-sense and political interests at Basle has ended, he writes, in a draw. 'This is to be regretted, for what Basle failed to bring about the coming conference must achieve. The Chancellor is going to enter the lists on behalf of Germany's future. The outcome of the struggle will seal the fate of this country for a long time.' Dr. Kaas concludes, therefore, with an appeal for a united front.

10. In a similar vein Freiherr von Lersner (one of the German delegates to the Peace Conference at Versailles), writing in the Nationalist 'Börsen-Zeitung', urges all Germans to be prepared for the year of trouble 1932. This, he writes, will be the worst of all the years since Versailles, but it will also be the best, for it will mark the beginning of the fight against the system of compromising and yielding on questions where no compromise and no

surrender should ever have been considered. Successive Governments and Parliaments, financial and economic leaders, have, he complains, always chosen the easier road ever since Versailles. Germany must now look facts in the face once and for all and that in itself will be the first step towards redemption.

I have, &c.

HORACE RUMBOLD

No. 6

Sir J. Simon to Sir R. Lindsay (Washington)

No. 17 Telegraphic [C 170/29/62]

FOREIGN OFFICE, *January 5, 1932*

Stewart, United States representative on Special Advisory Committee, has privately expressed the view that American opinion will six months hence be more ready than now to make concessions as regards war debts.

On this assumption it has been suggested that it might be desirable to treat the work of forthcoming Reparations Conference as provisional and to reassemble it, say in June, to consider the wider questions of reduction and cancellation.

What, if anything, do you think there is in this view?

No. 7

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 9 [C 161/29/62]

Sir,

FOREIGN OFFICE, *January 6, 1932*

This morning the German Ambassador came to discuss with me the present situation as regards the forthcoming Reparations Conference. He is leaving this evening for Berlin, as Dr. Brüning has summoned him and his colleague from Paris to a conference on the matter. Baron von Neurath was uncertain whether the German Ambassador at Rome had not also been sent for.

I told the Ambassador that we were very desirous that the conference should meet at the earliest possible date and that French proposals to postpone its opening were decidedly inconvenient to us. He said that the German Government were also anxious for the earliest possible meeting.

He referred to the exchange of notes between France and ourselves and to Sir Frederick Leith-Ross's visit to Paris. I told him that we had no desire to make any secret of what was going on. The British Government were convinced that the only effective solution would be provided by the complete cancellation of reparations, and that the difficulties of Europe would not be finally removed by any other course. But we had to look at the immediate problem in a practical spirit, and felt sure that the German Government, like ourselves, were alive to the attitude taken up in France, where M. Laval

felt it impossible to abandon the form of the Young plan, and in America, where public opinion would not acquiesce in a complete cancellation of European debts. If, therefore, in these circumstances we discussed arrangements for a period of time during which reparation payments should be suspended, this did not betoken any abandonment of our view that a general cancellation of reparations and debts would provide the only effective solution.

The Ambassador said that he perfectly understood this, and I asked him whether he thought that his Government had any particular period of suspension in mind. He said that this remained for consideration, but, speaking personally, he would be inclined to favour a very short period rather than a substantial one, for he did not believe that even five years would restore confidence, and, on the other hand, quite a short suspension would leave the parties face to face with the actual problem instead of being able to postpone it for a season. From this point of view, he even spoke of six months as a possible adjournment, remarking that we had no instalment of American debt to pay until the end of the year. He emphasised that these were merely his personal reflections, and that when he reached Berlin he was at once to enter into consultation with the German Government. I asked if he would let you know of anything which it might be useful for us to learn of the German attitude before Sir Frederick Leith-Ross left for Paris at the end of the week, and he promised to do so.

I am, &c.

JOHN SIMON

No. 8

Sir R. Lindsay (Washington) to Sir J. Simon (Received January 7)
No. 10 Telegraphic [C 177/29/62]

WASHINGTON, January 6, 1932

(? Your telegram No. 17.)¹

1. If Stewart's statement is to be taken without qualification and as meaning that with mere lapse of time American opinion will improve, then I entirely disagree. In June Congress will just be adjourning or will have adjourned. The Conventions will begin and pre-electoral paralysis of administration will be nearly entire. If at that moment a Reparation Conference is due to meet in Europe nothing could possibly prevent both parties from making uncompromising declarations in their platforms against any reduction. Mere lapse of time by bringing Conventions and elections closer can only have the effect of making (?Congress)² judge this or any other issue even more exclusively by purely political standards than now. As there is no chance of a popular outburst of feeling in the country in favour of concessions it follows that Congress opinion if left to itself can only tend to harden.

2. Let us now travel into the realm of pure hypothesis and suppose at

¹ No. 6.

² The text here is uncertain.

forthcoming Conference it were possible for Creditor Powers to agree on cancellation or on very drastic reduction in Germany's unconditional annuities. In this case hands of Administration would be greatly strengthened. The President might not be able to secure immediate cancellation of debts, but he should be able to get a proper extension of the Hoover moratorium and to set up machinery (war debts commission) for further action. If in the more distant future Congress were still recalcitrant, then Europe would be in best possible position for recourse to the ultimate expedient. I presume, however, that no such outcome of impending Conference can be expected.

3. It must be remembered that the position now of Great Britain in opinion here, even in Congress, is extremely good. This is especially so in contrast to position of France which is as bad as ours is good. It is due to recognition of broad-minded attitude His Majesty's Government have always assumed. If it were possible to separate British debts from those of other countries I think a great deal might be hoped for here even at the present moment. I regard it as important if Reparation Conference is to result in provisional or intermediate solutions that everything possible should be done to preserve excellent position we have now acquired here. Assuming that Treasury view that all debts and reparations should as early as possible be cancelled is the view of His Majesty's Government I should recommend that Conference should not be allowed to end without a genuine and forcible effort being made to induce Conference to accept it. His Majesty's Government should make it clear that they would regard any other outcome as *pis aller*. There would be no objection (I am speaking only from point of view of effects on opinion here) to insistence by His Majesty's Government that if any residue of unconditional annuities were left they should receive a more equitable share than is provided for in the Young Plan. Such an attitude would in my judgment preserve British position here.

[4]. If the Conference were to adjourn after merely granting a further moratorium to Germany, or after doing no more than reduce or even cancel German conditional annuities, result here would be as in paragraph 1 of this telegram.

No. 9

Sir J. Simon to Sir R. Graham (Rome)

No. 18 [C 198/29/62]

FOREIGN OFFICE, *January 7, 1932*

Sir,

I told the Italian Chargé d'Affaires this morning, in reference to the conversations now going on between ourselves and the French in preparation for the Reparations Conference, that we had no desire to make any secret of the matter, and that I was therefore communicating to him the general attitude we were taking up.

The British Government were convinced that the only effective solution

would be provided by the complete cancellation of reparations, and that the difficulties of Europe could not be finally removed by any other course. But we had to look at the immediate problem in a practical spirit, and, in view of the existing situation both in France and in America, we had felt it necessary to consider arrangements for a period of time during which reparation payments should be suspended. This did not, however, betoken any abandonment of our view that a general cancellation of reparations and debts would provide the only effective solution. I said that the period of suspension which was under discussion had not been fixed in our own minds; perhaps a comparatively short period, accompanied by a provision for its extension, if extension was found necessary as the result of impartial enquiry, might be a possible method. I did not suppose that Germany could take any lower ground than a demand that reparations should be finally ended, but it was a matter for consideration whether the creditor Governments might not be able to reach an agreement amongst themselves as to the period of immediate suspension to which they would agree and make that concession to Germany in the interests of European recovery. This would, on the one hand, not involve France in a formal abandonment of the Young plan, and, on the other hand, would not require Germany to make a fresh declaration in recognition of the resumption of reparation payments in the future.

I said that we were anxious to let the Italian Government know what was passing in our minds, and should be glad if they in their turn could inform us of their views.

Signor Mameli thanked me warmly for making this communication and said that he also had information to give. The Italian Government had now received an invitation from France to send their experts to Paris for a preliminary conference on the reparation question, and the Italian Government desired to inform us of this fact. They were sending Signor Beneduce and Signor Buti to Paris at the end of this week. It was not, so far as Signor Mameli knew, intended to have a triangular discussion, in which Sir Frederick Leith-Ross also should take part, but, in any case, the Italian experts were proposing to come on to London and would like to meet our experts here. Signor Beneduce was engaged at Basle on the 10th and 11th, and the date proposed for a meeting in London was Wednesday, the 13th. I promised to let the Treasury know of this suggestion and inform the Italian Embassy at once whether the proposed date would be suitable.

I have since learned from the Treasury that it has been arranged for Signor Beneduce to meet Sir Frederick Leith-Ross in Paris on the 11th or 12th, so apparently the Italian experts will not find it necessary to come to London for the purpose of this consultation.

I am, &c.

JOHN SIMON

Sir H. Rumbold (Berlin) to Sir J. Simon
No. 2 Telegraphic: by telephone [C 220/29/62]

BERLIN, *January 8, 1932*

My telegram No. 1.¹

At interview which I have just had with Chancellor and at which German Ambassador in London was present, the former said that, as a result of the careful examination which German Government had made of reparations question both from point of view of economic situation of the world and from the internal standpoint, he would be obliged to declare at the Reparations Conference that Germany was not in a position to pay reparations either now or at any foreseeable time in the future. The German Government would, he pointed out, anyhow have to find considerable sums of money in the future for interest and amortisation on long-term loans. He would therefore have to press for definitive solution in the sense of a cancellation of reparations and in doing so would find a formula which would not give offence to the French and make things difficult for M. Laval. He had so informed French Ambassador who left for Paris on Wednesday.² If however he could not obtain a definitive solution of reparations question now he would have to press for adjournment of Reparations Conference for 5 or 6 months and certainly until after French elections, in the confident belief that during that period the continued effect of economic depression would bring home both to the French and to the Americans the necessity for changing their present standpoint with regard to reparations and war debts.

Chancellor pointed out that the proposal for a moratorium of 2 to 3 years or even of 5 years, which had been mooted in certain quarters, would be useless. No one would lend Germany any money nor would confidence be revived in this country until reparations question was definitively settled. He pointed to the fact that production in Upper Silesia and in Saxony, for instance, had fallen off by some 30 per cent. as justifying inability of German Government to take engagements for or pay reparations in the future.

I quoted the passage in the Basle report which states that 'once Germany and the world at large have recovered their balance and return to something like the economic conditions which we are accustomed to regard as normal, the Reichsbahn (fundamentally a sound undertaking) will be able in future years, managed on a commercial basis, to yield a net operating surplus comparable with that earned by other big foreign railway systems', and enquired whether he did not think that attention would be drawn to this passage of the report during the conference. Chancellor said that was an entire illusion to suppose that German railways would be in a position to pay any sums on reparations account. They had, in fact, had to be helped by the Government and by measures which threw certain railway expenditure on to towns where there were railway workshops. He also drew attention to the unsatisfactory

¹ Not printed. In this telegram Sir H. Rumbold reported that he had arranged an interview with Dr. Brüning.

² January 6.

position of French and Italian railways. I said it was curious in these circumstances that the Basle committee had inserted the passage in question.

Chancellor then said he was forced to take the psychology of the German nation into account. He could not indefinitely call on it to make sacrifices without a prospect of a final relief from the reparations burden. A moratorium for two, three, or even four years would merely prolong the uncertainty and increase the feeling of hopelessness in the nation. He might control the situation for 6 months but a moratorium for two or more years might lead to chaos in this country, that is to a state of things which no minister could control.

Finally he asked me to transmit an urgent appeal to his Majesty's Government to press to the utmost of their power for a final solution of reparations question at forthcoming conference.

• No. 11

Statement issued by His Majesty's Government

[C 220/29/62]

The following statement by Mr. Ramsay MacDonald was issued from 10, Downing Street, on January 10, following on the statement¹ on reparations made by Dr. Brüning, the German Chancellor, in Berlin on the evening of January 9:—

‘The policy and point of view of His Majesty’s Government could be announced only at the proper place and time. In the meanwhile, it might be said that, in view of the economic conditions disclosed by the report of the experts and of the internal political problems of Germany, it was not unlikely that some such declaration as that of Dr. Brüning would be made at the Lausanne Conference. The fact that it had already been made rendered that conference more necessary than ever—for it was impossible to leave things as they are. The present situation was the result of international agreements, and an international conference was, therefore, necessary to deal with it. Mr. MacDonald was sure that it would be found that all the Governments concerned realised that European recovery and appeasement depended upon facing the hard facts.’

¹ For the text of this statement see No. 16.

No. 12

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 10)

No. 8 Telegraphic [C 248/29/62]

BERLIN, January 10, 1932

My telegram No. 2.¹

I understand Reuter's telegram from Berlin purporting to give gist of my conversation with Chancellor has caused a disagreeable impression in Paris.

¹ No. 10.

Although various correspondents including Reuter's agent applied here for confirmation of reports of conversation current in London . . .² morning they were referred as is usual in such case to Chancellor's office.

It is possible that leakage occurred owing to fact that my telegram was telephoned *en clair* to London at suggestion of Baron Neurath who was present at my interview with Chancellor. I understand from him that he had suggested to you that I should follow this course.

Reuter's telegram is obviously intelligent guess-work based on the knowledge that an interview did actually take place. It contains remarks which Chancellor did not make to me.

I am satisfied that my telegram No. 2 contains an accurate record of Chancellor's statements to me. In view of importance of these statements and to avoid any possible misunderstanding I was careful immediately after my interview to summarise Chancellor's material statements point by point with Baron Neurath in order to satisfy myself that I had correctly understood them.

² The text here is uncertain.

No. 13

Lord Tyrrell (Paris) to Sir J. Simon (Received January 11)

No. 8 Saving. Telegraphic [G 265/29/62]

PARIS, *January 10, 1932*

I informed His Majesty's Ambassador at Berlin by telephone last night of very disagreeable impression created here (despite subsequent *démentis*) by Reuter message from Berlin stating that Sir H. Rumbold had been informed by Chancellor that Germany would be unable to make any further reparations payments. My despatch No. 32¹ contains text of various messages as published in 'Temps' of last night and tonight. Effect is particularly unfortunate coming as it does in the middle of Sir F. Leith-Ross's negotiations;² and already there has been a sharp alteration in the tone of the press which had up to yesterday morning been contemplating very calmly the increasing evidence that Germany could pay no further reparations for the time being (see particularly summary of leading article in tonight's 'Temps' contained in my immediately following telegram).³

2. M. Flandin, after he had seen the Reuter telegram, sent me a message yesterday afternoon drawing my attention to:

(1) effect of German Chancellor's declaration on attitude of French public and parliamentary opinion which would not admit continuance of financial assistance to Germany in such circumstances. Indeed, I understand that Bank of France has already decided, if German attitude is maintained, to withdraw French share of credits to Reichsbank;

¹ Not printed.

² Sir F. Leith-Ross held conversations with M. Flandin on January 8, 9, and 11. For the text of the British proposals which formed the basis of the discussions, see Appendix I.

³ Not printed.

(2) danger of yielding unreservedly to German pressure for cancellation which in his opinion will not produce a stable and peaceful Europe but only fresh German demands for revision of further chapters of Treaty of Versailles; M. Flandin quoted the events which followed the evacuation in 1930;

(3) effect on future of Franco-British co-operation of open approval in Great Britain of German declaration which M. Flandin claims was deliberately directed against its maintenance;

(4) danger of complete cancellation without any preliminary guarantee as to American attitude; M. Flandin suggested that, if America subsequently refused concessions, this might necessitate repudiation of the debt agreements with inevitable reaction on observance of contracts generally in Europe;

(5) detrimental effect on industry in Great Britain and France of freeing Germany, unfettered by any State debt, from the whole reparation burden, and risk, in these circumstances, of listening too completely to counsels of Bankers.

3. This morning's newspapers contain text of statement which constitutes M. Flandin's reply to German Chancellor (text is contained in my despatch No. 33³ of tonight). I gather that it was issued without preliminary consultation with President of the Council.

No. 14

Sir J. Simon to Lord Tyrrell (Paris)

No. 83 [C 291/29/62]

FOREIGN OFFICE, *January 11, 1932*

My Lord,

M. de Fleuriau spoke to me to-day on the subject of the date of the Reparations Conference and left with me the annexed aide-mémoire. He referred to the previous statement of the French Government that they could not envisage the opening of the conference before the 25th, and said that even now M. Laval did not feel able definitely to fix this date, though he would do his best. He appreciated that any uncertainty was very inconvenient to us, but the domestic position of the French Government was the cause, and Dr. Brüning's recent declaration had added to the complication. I enquired how soon we might hope to have definite information whether the proposed date was accepted and the Ambassador replied that he hoped the anxieties of the French Government would be disposed of soon after the Chamber met to-morrow. Meanwhile, the French Chargé d'Affaires at Berne is telling the Swiss Government that the Reparations Conference will not begin *before* the 25th. M. de Fleuriau stressed the difficulty of the French Ministers getting away from Paris when the Chamber was in session, but I gathered that they would do their utmost to stand by the proposed date and let us know as soon as they could.

M. de Fleuriau asked if I could tell him anything of what Dr. Brüning had said to our Ambassador about reparations last Friday. I replied by saying

that I understood that Dr. Brüning had not only seen Sir Horace Rumbold, but had spoken to the French Ambassador as well. M. de Fleuriau was not aware of this and said that, this being so, his Government was no doubt getting the information as to Dr. Brüning's position from their own representative at Berlin. I told the Ambassador that we had not expected that Dr. Brüning would make a public declaration at this time and that I understood that what he had conveyed privately to Sir H. Rumbold was a diagnosis of Germany's capacity to pay reparations and not a provocative denunciation of engagements. Dr. Brüning's public statement was to the effect that Germany could not 'continue' to pay. This might be understood to refer to a break, without necessarily threatening final termination. M. de Fleuriau observed that the anxiety felt in France was not so much on the head of reparations as such; it proceeded from a fear that if Germany successfully attacked one portion of her international engagements she would attack others and attempt to get rid of the Treaty of Versailles. It was these anxieties which gave rise in France to actual fear of a new war in Europe, and thus in the French view Germany's release from reparations would really create added danger for Europe.

I am, &c.

JOHN SIMON

ENCLOSURE IN No. 14

Date de la Conférence des Réparations

Le Gouvernement français avait fait connaître aux Puissances intéressées qu'il ne lui était pas possible d'envisager l'ouverture de la Conférence des Réparations avant le 25 janvier. Les circonstances empêchent actuellement le Président du Conseil de préciser cette date et le Chargé d'Affaires de France à Berne s'est borné à indiquer au Gouvernement suisse que la Conférence des Réparations ne s'ouvrirait pas avant le 25 de ce mois.

11 janvier 1932.

No. 15

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 12 Telegraphic [C 248/29/62]

FOREIGN OFFICE, January 11, 1932

Your telegram No. 8¹ of January 10th (German demand for cancellation of reparations).

As the leakage through Reuters may give the impression that the Chancellor's declaration is the result of previous agreement between His Majesty's Government and the German Government, would it be possible, in order to kill the idea of any such collusion, for the Chancellor to let it be known that he had notified the French Ambassador as far back as last Wednesday of the German Government's intention, i.e. two days before he had ever mentioned the matter to you?

¹ No. 12.

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 14)

No. 22 [C 373/29/62]

BERLIN, January 11, 1932

Sir,

With reference to my telegram No. 9¹ of the 10th January, I have the honour to report that the German official statement on reparation, as issued on the 9th instant by Wolff's Bureau, ran as follows:—

'In reply to a question whether the Chancellor considered it advisable to remain away from Berlin for a considerable period (the duration of the reparation negotiations) especially in view of the Communist motion to summon the Reichstag, the Chancellor admitted that there were objections to his absence, but added that his presence at the conference was absolutely necessary. In view of the attitude of the (Reichstag) Committee on Procedure up to the present he regarded it as absolutely out of the question that a majority of the Reichstag would, at this juncture, support the demand for a session in order to discuss the reparation question. The Government had repeatedly stated that they had no intention of ignoring the Reichstag or its constitutional functions. On the contrary, at the last session of Parliament he himself had supported the proposal that the Reichstag should meet again towards the end of February. The proposal to summon the Reichstag now was, in his opinion, incomprehensible, for it was just at this moment that the Government were preparing to attend one of the most important conferences at which the interests of the German people, who were putting up so sturdy a fight for their existence, would be defended.'

2. Wolff's representative thereupon pointed out that, while the country at large shared this view, anxiety reigned in certain circles where some doubt existed as to the attitude which the Government and the German delegation intended to take up at Lausanne:—

'The Chancellor made no attempt to hide his astonishment and declared emphatically that there could not be any possible doubt as to the attitude of the German delegation at Lausanne. It was only necessary for him to draw attention to the different German utterances of recent date, and more particularly to the official utterances on the occasion of the New Year as well as to his speech on the wireless on the 7th December. The Powers concerned had now to draw the logical conclusions from the report of the Basle experts. That report again set out the vast dimensions of the world crisis. Above all it depicted the devastating results of that crisis on Germany. It brought home to the world the measures taken by Germany, measures which went to the very limits of what was possible in order to combat the crisis. And it recognised that these measures were unexampled in modern legislation. At the same time the report showed that one-sided

¹ Not printed. This telegram reported briefly Dr. Brüning's statement.

measures were not enough, and that Germany's situation, which was largely the cause of the increasing financial paralysis of the world at large, made the immediate joint action of all the Governments an absolute necessity.

'Although the report did not formulate proposals as to the decisions which the Governments ought to take, nevertheless it gave the main lines quite clearly. It showed Germany's actual incapacity to pay, and it showed, moreover, the close connexion between German reparation payments and the whole of the present position. At the same time the report pointed out expressly that the assumptions from which the authors of the Young plan had started had fundamentally altered in the meantime, and that, declared the Chancellor emphatically, was saying everything. It was perfectly obvious that Germany's position made the continuation of political payments impossible for her. It was equally obvious that any attempt to uphold the system of such political payments would not only be disastrous for Germany, but for the whole world. This being the case, the Government of the Reich had no choice as to the attitude which they would have to take up. At the coming conference they could do nothing except describe the position as it was, and address a request to the other Governments concerned to take the position into consideration in their turn and not to seek for compromise solutions for which there was no longer any real possibility.

'In conclusion, the Chancellor stated that he was convinced that there was no lack of insight in any quarter now as to the necessity for the conclusions which were to be drawn. Everything depended on the courage with which people treated their convictions, and on the fact that the treatment of economic problems—as advised by the experts' report—was not again influenced by political trains of thought.'

I have, &c.

HORACE RUMBOLD

No. 17

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 44 [C 354/235/18]

FOREIGN OFFICE, *January 12, 1932*

Sir,

The German Ambassador had a long conversation with me this afternoon on his return from Berlin. He first spoke of President Hindenburg, and told me confidentially that, though the Opposition in the Reichstag had objected to the plan of amending the Constitution so as to enable Hindenburg's term to be extended, there were good prospects that if Hindenburg stood for re-election he would have the support of the Hitlerites and the Hugenberg party, and thus there would be an indication of German solidarity. Herr von Neurath

told me he had acted as intermediary between the Chancellor and Hindenburg, and he was obviously much pleased at having succeeded in his mission of getting the President to agree to stand again if he was assured of adequate support. I asked when it was contemplated that the presidential election would take place. This might occur at any time before the present seven years' term is up, as I believe it is in June,¹ and Herr von Neurath told me that the present intention was to have the election in April, which would be after the Prussian elections but before the French elections.

I am, &c.

JOHN SIMON

¹ The President's term of office was due to expire on April 30.

No. 18

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 45 [C 355/29/62]

FOREIGN OFFICE, *January 12, 1932*

Sir,

In the course of conversation this afternoon, the German Ambassador mentioned the Chancellor's public declaration last Saturday on the subject of reparations.

The Ambassador told me that the Chancellor had not intended to make any public declaration at this time, but that he was forced to do so by statements in the newspapers as to what Dr. Brüning had said to you on the previous day. These newspaper statements had considerably embarrassed the Chancellor, and he felt that a public declaration, authorised by himself, was the best course open to him.

I told Herr von Neurath that I had been making enquiries to try to find out how any statement had got into the press about what the Chancellor had said to you. We had of course regarded the conversation as intended to be confidential, but on Saturday morning¹ a German journalist in London here, Herr Halfeld², the correspondent of a Hamburg newspaper, had put the question point blank to our News Department whether it was true that the German Chancellor had informed you that Germany could not pay any more reparations. It was, therefore, not from the Foreign Office that the news had leaked out, though when the question was asked it was useless to say that the subject was confidential, since this only reinforced the inference that something of the sort had occurred. The Ambassador said that he also had heard that Halfeld had got hold of the news, and he believed he had got it from a Polish journalist in London named Litauer. I said I had independent information that the statement was current in Warsaw on Saturday.

The Ambassador expressed himself as entirely satisfied that there had been

¹ January 9.

² Herr Halfeld was London correspondent of the *Hamburger Fremdenblatt*.

no indiscretion for which British authorities were responsible, and said that, as a matter of interest, he was going to follow up the matter and ascertain from Halfeld where and when he got the news.

As regards the actual language employed by the Chancellor in his conversation with you, Herr von Neurath said that he also was present on the occasion, and that Dr. Brüning had said that when it came to making a public declaration it would be necessary to choose his words very carefully, so as not to be accused of denouncing the reparation agreement altogether. I said that I had noted that Dr. Brüning in his public statement had used the expression that Germany 'could not continue to pay', and that I had pointed out to the French Ambassador yesterday that this was not necessarily a threat of final termination, but was rather in the nature of a diagnosis of Germany's present position. I thought that the first explosion of feeling in Paris, exemplified by M. Flandin's statement, had passed, and that we had done what we could to restore the atmosphere by the observations I had made to the French Ambassador, with which Herr von Neurath warmly agreed. I think, therefore, that we may take it that this particular trouble has been smoothed away. Certainly the German Ambassador conveyed to me that his Government were grateful to us for our part in the matter, and he added that the Prime Minister's statement, published on Sunday, had given satisfaction to Berlin.

I am, &c.

JOHN SIMON

No. 19

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 46 [C 356/29/62]

FOREIGN OFFICE, *January 12, 1932*

Sir,

Another subject raised in my conversation with the German Ambassador this afternoon was that of the approaching Conference at Lausanne. I asked the Ambassador whether he could give me any information as to the attitude of the German Government. We were approaching the problem in a practical spirit, and whatever might be said as to the claim to wipe the slate clean of reparations, we were more immediately concerned to know, if there had to be at present only a suspension, how long the period of suspension should be. I also asked whether the German Government had expressed to him any views about the plan which had been mooted for the issue of railway bonds.¹

On the last point the Ambassador said this had been discussed in Berlin, but it was not regarded with approval. He intended to prepare a memo-

¹ The French Government had proposed that the German Government should create bonds of a marketable type to a nominal value representing the capitalization of the charge on the German railways imposed by the Young plan, which was, in fact, equivalent to the amount of the unconditional annuities (660 million Reichmarks). These bonds would not carry interest during a two years' moratorium, but would thereafter carry a fixed rate of interest equivalent to the annuity fixed in the Young plan.

randum for me about it. He indicated that in his view the burden of such bonds would be too heavy for the Railway Company to bear, but he did not in conversation refer to the other objection that the issue of such bonds would be in effect a reacknowledgment of the liability for reparations in the future.

As regards the period of suspension, this also had been much discussed while he was in Berlin. He did not himself believe that any fixed period would be sufficient to bring about the necessary recovery in the German position, and he did not express any personal view. He spoke of the possibility of a resumed conference in the summer. I asked him whether, in view of the improbability of Germany and France both agreeing on the same plan, his Government had considered the possibility of the creditor Governments discussing the period of postponement amongst themselves and presenting the proposal, if they could agree about it, as a concession to Germany without requiring an all-round agreement to which Germany would be a party. I gathered that this idea had also been considered in Berlin, but Herr von Neurath said that Dr. Brüning, while accepting such a respite, would have to make it clear that Germany did not admit that reparations could be resumed at the end of the agreed period. I said that no doubt, under such a scheme, Germany and France would both seek to reserve their respective points of view, but that much would depend upon the way in which these reservations were expressed.

I mentioned to the Ambassador that I had some reason to think that the impression existed in some French quarters that Dr. Brüning's attitude and intentions were influenced by, or at any rate coincided with, advice which had been tendered to him from London, and I reminded him that at our interview just before he left for Berlin, though he had told me his views and had said that Germany might propose at Lausanne a six months' adjournment, I had made no observation. The Ambassador entirely confirmed me when I said that His Majesty's Government had not at any time taken upon themselves to offer advice to Germany, and I told him that we had already instructed our Ambassador in Paris to make this plain to the French Government if he thought it necessary to remove any such misapprehension.²

I am, &c.

JOHN SIMON

² These instructions were telegraphed to Lord Tyrrell on January 12.

No. 20

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 12)

No. 12 Telegraphic [C 342/29/62]

BERLIN, January 12, 1932

Your telegram of No. 12.¹

Secretary of State thinks that a statement by Chancellor such as you suggest would do more harm than good. It would tend to revive the excitement in

¹ No. 15.

Paris about Reuter's telegram which he thinks is dying down. German Ambassador in Paris had had an interview yesterday with President of the Council which had begun stormily but had ended peacefully. Suggested declaration by Chancellor would also cause very undesirable speculation in Germany itself. He had seen no suggestion either in German or foreign press that Chancellor's declaration had been the result of previous agreement between His Majesty's Government and German Government, and German public opinion would not understand what was meant. I think there is considerable force in Secretary of State's view.

He informed me that after the publication of Reuter's telegram he had told the Press Department and any foreign diplomats who had questioned him that the Chancellor had made the same statement to French Ambassador as he had made to myself and that he, the Secretary of State, had taken this course largely to protect me from press attacks. He said confidentially that Reuter's telegram had caused much ill-feeling here where it had been interpreted as an attempt to misrepresent the attitude of German Government and stir up mischief. He added that Chancellor's statement to Wolff on Reparations question last Saturday would anyhow have been made in the course of the present week, but that Reuter's telegram had rendered an immediate statement necessary.²

² In view of this telegram Sir H. Rumbold was instructed on January 13 not to press for a statement by Dr. Brüning.

No. 21

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 12)

No. 13 Telegraphic [C 343/29/62]

BERLIN, January 12, 1932

My immediately preceding telegram.¹

I took advantage of my visit to Secretary of State to-day to go over with him my interview with Chancellor. He said that my recollection of what had passed was accurate. He explained that nobody could tell now what Germany's economic position would be 15 or 20 years hence and that Chancellor's views would therefore perhaps be most correctly expressed by saying that 'Germany was not in a position to pay reparations either now or at any foreseeable time in the future'. Please see first sentence (? referred)² to. I should be glad if necessary modification could be made accordingly. Whilst this modification renders Chancellor's statement less categorical the effect remains the same.

¹ No. 20.

² The text here is uncertain.

Lord Tyrrell (Paris) to Sir J. Simon (Received January 13)

No. 13 Saving. Telegraphic [C 329/29/62]

PARIS, January 12, 1932.

The French Ambassador in Berlin told me this afternoon, with reference to the German Chancellor's declaration, that Dr. Brüning had informed him on January 6 that Germany could not pay reparations but not that she would never pay reparations any more. I said that I had understood from the record of Sir H. Rumbold's interview that Dr. Brüning had only been making a diagnosis of Germany's capacity to pay and that in the interview with Sir H. Rumbold there had been no question of the repudiation of reparations. M. François-Poncet seemed to agree; and I said that it seemed to me a pity that greater public emphasis had not been laid on his own interview with Dr. Brüning and his interpretation of it. He said that no doubt the French Government had found it difficult to publish any further explanations in view of the Wolff communiqué issued by Dr. Brüning and of the fact that the latter evidently found it difficult, for internal political reasons, to comment too precisely on what he had and had not said.

2. M. François-Poncet said that he regarded with anxiety the development of the situation in Germany within the last few months; reparations was no longer a financial but a political question; Germany was 'en bataille' for cancellation, and leaders of opinion were openly talking of a 'percée' or 'breaking through' in respect thereof. It was to be the 'revanche' for the 'Anschluss'; it was but another illustration of the Bismarckian methods which still persisted in German politics. Dr. Brüning was undoubtedly a charming and conciliatory personage, but beneath him and behind him and around him stood the officials and the caste and the methods which Europe had faced for years before the war. The Chancellor was inevitably subjected to their influence, whatever might be his personal views and wishes.

3. M. François-Poncet stated that the only influence which could restrain the directors of German policy was that of Great Britain; and he seemed to be convinced that the Chancellor's recent declaration was made on the advice of Dr. Spragge acting with the approval of the Governor of the Bank of England. He said that he understood our desire for complete cancellation but that the French Government were willing to give us the substance of it if only they could retain the shadow and the principle of payment. When I quoted to him M. Flandin's insistence in his interview with Sir F. Leith-Ross last night on the interest on the railway bonds being paid from 1934, he seemed to suggest that in fact there would be means of escaping from this provision before the necessity of payment arose; and when I urged upon him the effect on international opinion and the markets of the maintenance of the 'shadow', he replied that the French compromise proposal might not be so satisfactory to us as cancellation but that it was certainly better than a conflict.

4. He said that the French Government did not wish to deal harshly with Germany and only desired to make Germany realize that she must go slow and not proceed by the policy of 'coups de poing' and attempts at a 'percée'. The French Government desired a policy of collaboration in Europe; and Germany must not think that, because British and Italian and American opinion favoured cancellation, it was possible to attain her desires by the isolation of France. He repeated that Great Britain could modify the German attitude if she chose; and he confirmed what M. Sarraut suggested to me yesterday that Dr. Brüning's declaration had hardened opinion here.

No. 23

Lord Tyrrell (Paris) to Sir J. Simon (Received January 13)

No. 14 Saving. Telegraphic [C 330/29/62]

PARIS, January 12, 1932

I was informed by German Embassy that at his interview with President of the Council yesterday, German Ambassador had reminded M. Laval that Chancellor's declaration had also been made to French Ambassador in Berlin and that it did not indicate an attempt unilaterally to tear up the Young Plan. M. von Hoesch seems also to have made it clear to M. Laval that by a final settlement the German Government meant a settlement involving complete cancellation.

2. German Embassy gave me the impression that M. von Hoesch thought that M. Laval was contemplating a protest against Chancellor's declaration and that terms and opportunity of this protest would be considered by French Cabinet as soon as it is reconstructed. I asked M. Flandin this evening whether he expected any further protest against Dr. Brüning's declaration; and he said that, if there were no great changes in the Government, he thought that M. Laval would probably content himself with a reply at Lausanne.

No. 24

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 15)

No. 27 [C 440/29/62]

BERLIN, January 12, 1932

Sir,

With reference to my telegram No. 8¹ of the 10th January and my despatch No. 22² of the 11th January, I have the honour to report that Herr Dieckhoff informed a member of my staff yesterday that the German Government had intended in any case to issue an official statement defining the German

¹ No. 12.

² No. 16.

attitude on reparation payments. The publication of Reuter's statement precipitated the issue of the German communiqué, which was intended, according to Herr Dieckhoff, mainly for home consumption. It was to be worded somewhat differently, its aim being to reassure public opinion in this country and forestall if possible untimely and embarrassing resolutions by political parties admonishing the Chancellor to stand fast at Lausanne.

2. It is to be noted that the Chancellor has been perfectly consistent both in his private and public utterances in regard to Germany's future reparation policy. As early as the 30th October last year Dr. Brüning informed me that the Government of the Reich intended to meet Germany's short- and long-term debts, but that it would be manifestly impossible for the German Government to pay reparations as well. My despatch No. 867³ of the 30th October, 1931, in which I reported our conversation, contains the following passage:—

'I enquired whether Dr. Brüning meant that the German Government would not even pay the unconditional annuity to which he replied that they would be unable to so. . . . Turning to figures in illustration of the yearly amounts which the German Government would have to provide for the gradual repayment with interest of the short-term credits, as well as for the provision of interest on long-term credits, he estimated that Germany would have to make a yearly payment of about 80 to 100 million sterling on a gold basis, which was roughly equivalent to the German payments which would have normally been made under the Young plan. In the years in which the long-term credits became due for repayment the payments would be even heavier. It would be seen from the foregoing that it would be quite out of the power of the German Government to pay anything on account of reparations. The sums due by the German Government on account of loans and short- and long-term credits amounted to some 28 milliards of marks, *i.e.* £1,400 million sterling at par.'

3. In the interview which he gave to representatives of the foreign press on the 10th December, the Chancellor intimated clearly that Germany could only pay reparations if the impossible took place, that is to say, provided tariff barriers disappeared, and provided other countries agreed to accept enormous quantities of German goods, and at the same time to advance the money necessary to pay reparations. At the close of the discussions, in response to an enquiry as to what Germany's attitude would be at the conference, he observed that that attitude was fairly clear from his foregoing remarks. Certainly no doubt as to his meaning existed in the minds of those present. Similarly, his speech at the annual banquet of the American Chamber of Commerce on the 12th December followed closely along the same lines. All clear-headed people were, he said, long since in agreement that there was only one way of paying debts to a foreign country, namely, by means of an export surplus. He went on to indicate that tariff barriers should be removed and that Germany should be allowed to export goods to

³ Vol. II, No. 284 in this Series.

all countries without hindrance, failing which, 'the payment of our political debts is impossible'.

4. It will be observed that the Chancellor has been careful to distinguish between Germany's political debts and her commercial payments. This emerges clearly from his message to Wolff's bureau of the 9th instant, reported in my despatch No. 22 of the 11th January. The outcry in the French press is, I can only suppose, to be explained by the crude form in which the Reuter message presented the gist of the remarks made to me by the Chancellor on the 8th instant. But, judging by the reports sent by the German correspondents in Paris, certain French newspapers appear to be attacking Dr. Brüning chiefly over things which he certainly did not say.

5. The suggestion that the Chancellor issued his message to Wolff's Bureau in order to influence Hitler's decision on the presidential question is not borne out by the circumstances. In the absence of any indiscretion by Reuter, the Chancellor's message would not have been delivered in time to affect Hitler's decision, and, in any case, it would have been sufficient for him to have informed Hitler and Hugenberg privately. It would not be consistent, for that matter, with the Chancellor's character to have recourse to petty scheming of this kind in order to further a political end.

6. The semi-official 'Diplomatic Correspondence' states this morning that official circles are not unduly disturbed by the echo of the Chancellor's statement. It is, of course, unpleasant for creditor countries to have to look unpleasant facts in the face. The Nationalist press betrays, if anything, a little more nervousness than the Left press in the face of the excitement in France. The Agrarian 'Tageszeitung' points out that there can be no question of any tearing up of the Young plan on Germany's part. The Young plan has gone to pieces of itself, according to the experts' committee at Basle. The 'Frankfurter Zeitung', which is generally ready to criticize any clumsiness on the part of the Government, holds that on this occasion the bomb which Brüning hurled was not a bomb. It was a mere statement of fact. Complicated compromise solutions such as are now being worked out in France, involving abstruse transactions with German railway bonds, are due, the newspaper considers, to a complete misconception of the whole position. The situation is far too grave for cheap solutions of that sort. A widely circulated Democratic newspaper, the 'Berliner Volkszeitung', remarks that the Chancellor merely stated a bald fact. The economic position of the world and the economic position of Germany make sales of German goods on the vast scale required for reparations an impossibility, if Germany is also to pay her private debts, which she is determined to do. 'Neither talk, shouts, whistles nor screams from France,' it adds, 'can alter facts.'

I have, &c.

HORACE RUMBOLD

*Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 14)**No. 28 [C 401/235/18]*BERLIN, *January 12, 1932*

Sir,

With reference to my despatch No. 17¹ of the 8th January, I have the honour to report that the Nationalists and National Socialists, after exhaustive discussions, decided to reject the Chancellor's proposal to prolong President von Hindenburg's tenure of office by means of a Reichstag vote amending the Constitution, which had been formally conveyed to them by General Groener in his capacity as Minister of the Interior. A joint communiqué issued by the Nazis and Nationalists yesterday evening stated that constitutional scruples had led Herr Hitler and Herr Hugenberg to the conviction that the proposal was unacceptable. A letter to the Chancellor from Herr Hugenberg was delivered this evening. The Nationalist leader's reasons for refusal are based on the dominant idea that the prolongation of the President's term by such a Reichstag vote would look like a vote of confidence in the Chancellor. Hitler, on the other hand, first addressed a letter direct to President Hindenburg, the contents of which have not been made public. To the Chancellor he replied twelve hours later. He rejected the proposal and promised to provide Dr. Brüning with a detailed statement as to the reasons, of a 'constitutional, external and internal political, and moral' nature, which led the party to adopt this standpoint. Hitler is having trouble with his leaders, particularly with Goering, who is noisily demanding Dr. Brüning's scalp. There seems to be little doubt that both parties are prepared in principle to support President Hindenburg's re-election, but they are trying to exploit the situation in order to upset Dr. Brüning. Though neither Hitler nor Hugenberg makes reference to it, discussion is now turned on the possibility of obtaining the President's consent to election in the ordinary way by popular suffrage. Should two ballots prove necessary, the 13th March and the 11th April are mentioned as suitable dates for the election by many newspapers.

2. It is impossible to say whether the Hitlerites will gain or lose ground by their decision. To declare that their scrupulous regard for the spirit and letter of the Constitution led them to reject the Chancellor's proposal was, of course, a piece of hypocrisy on the part of a political party which has shown no love for the Constitution in question. But as hypocrisy of this kind is not unusual in German political life, the electorate may choose to ignore it. The true reason for their refusal is, of course, only to be found in their attitude to the Chancellor. The acceptance of Dr. Brüning's proposal would, in fact, be equivalent to some extent to an expression of confidence in him and his administration on the eve of important international negotiations.

¹ Not printed. This despatch reported that Dr. Brüning was consulting the leaders of political parties with regard to the proposal for prolonging President von Hindenburg's tenure of office.

3. That there were wide divergencies of view in both the Hitlerite and Hugenberg camps is beyond doubt. Instead of being able to furnish his reply as promised within 24 hours, Hitler was unable to reach a decision until last evening. Endless discussions between Berlin and Munich and between Nationalists and Hitlerites confused the issue. It is more than likely that it will be found that Hugenberg, whose hatred of Dr. Brüning is almost vindictive, and not Hitler was primarily responsible for the final decision. Neither party can afford for that matter to be outdone in opposition by the other.

4. The Hitlerite fortunes do not appear to be altering for better or worse. Local elections which took place on Sunday at Lippe Detmold gave the following results. The Social Democrats, who obtained 30,000 votes in the last Reichstag election two years ago, only lost 5,000 votes, most of which fell to the Communists. The German Nationals registered a small loss, while the *bourgeois* parties lost about 8,000 votes to the Nazis, who polled 28,442 as against 20,510 in 1930. It is clear from the total poll that a Nazi-Nationalist combination would require the support of the Communists to defeat the other parties and would, therefore, not be able to govern alone. The smallness of the electoral area does not justify any general comment, but it is fairly clear that the Nazis must do better than this if they are to sweep Prussia in the spring. Their share of the votes cast in recent local elections has been: Bremen 25.6 per cent., Brunswick 30 per cent., Oldenburg 38 per cent., Hamburg 26 per cent., Anhalt 36 per cent., Mecklenburg-Schwerin 41 per cent., Hessen 37 per cent., and Lippe Detmold 31 per cent. The general average of these results works out at 35 per cent.

I have, &c.

HORACE RUMBOLD

No. 26

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 56 [C 570/29/62]

FOREIGN OFFICE, *January 15, 1932*

Sir,

The German Ambassador enquired of me to-day whether I could give him any information as to the progress of the conversations which Sir Frederick Leith-Ross is conducting with the French on the subject of reparations. I said that the discussions were continuing, but that he might take it that no agreement had been reached and inasmuch as the new French Government¹

¹ M. Laval's administration was reconstructed on January 13 (after the death of M. Maginot, Minister of War, and on the resignation of M. Briand owing to ill-health). M. Laval remained President of the Council and also took over the Ministry of Foreign Affairs. M. Flandin continued as Minister of Finance. M. Laval resigned, after a defeat in the Chamber, on February 19. M. Tardieu then formed an administration in which he combined the Presidency of the Council with the Ministry of Foreign Affairs, and in which M. Flandin was Minister of Finance.

was not meeting the Chamber till Tuesday, it seemed to me probable that France could not definitely decide her policy for Lausanne before that. The Ambassador agreed with me that it would be a great misfortune if there was a meeting at Lausanne which did nothing except adjourn and I pointed out to him how injurious the effect of this would be upon American opinion and that the prospect of a reasonable settlement for Germany about reparations did largely depend on what might be the outcome as between America and her debtors.

Freiherr von Neurath enquired whether the Prime Minister was going to Lausanne and said that it would much interest Dr. Brüning to know. I replied that owing to the near approach of our parliamentary session and urgent matters of domestic policy in the British Cabinet, it would be very difficult for Mr. MacDonald to get away. He would, I was sure, endeavour to make himself available if at all possible, provided that the need for his presence was established. The Prime Minister hoped to be able to go to the Disarmament Conference for an important stage of its sittings.

I am, &c.

JOHN SIMON

No. 27

Lord Tyrrell (Paris) to Sir J. Simon (Received January 16)

No. 21 Saving. Telegraphic [C 492/29/62]

PARIS, January 15, 1932

On receipt of Sir F. Leith-Ross's telephone message of last evening I sounded M. Flandin privately on the proposals outlined in his private and confidential letter of January 13.¹ I explained that for a number of reasons the Government did not like the railway bonds scheme and that they considered that if it were pressed it would inevitably lead to an *impasse*. I told him that with the desire to avoid controversy following proposal was under consideration and that you would like to know what was reaction here:—

- (1) Creditor Governments to decide to postpone all payments due in period July 1, 1932, to June 30, 1933, without establishing elaborate system set out last July which would entail Germany's consent and longer negotiations.
- (2) A simultaneous declaration of Creditor Governments' intention to arrive at a permanent settlement at a conference to be convened as soon as possible, perhaps next July.

¹ In this letter of January 13 Sir F. Leith-Ross informed Lord Tyrrell that he had discussed with Mr. MacDonald, Lord Snowden, Sir J. Simon, and Mr. Runciman his report of his conversations in Paris and that it was considered by them desirable to make to the French Government the proposals outlined in paragraph 1 of this telegram. A summary of the letter was telephoned by Sir F. Leith-Ross to Lord Tyrrell on January 14. Lord Tyrrell was asked to sound the French Government privately on the proposals.

- (3) Moratorium contemplated in (1) above was not to be conditional on suspension of war debts by America as feeling in London was strongly against forcing an immediate issue with America and in favour of playing for time so far as she was concerned. I enquired also whether, if the above proposal was favoured here, French Government would put it forward themselves and whether feeling here was that in such circumstances it would be possible to arrange matters without a conference for the time being. I made it very clear that my communication was unofficial and private and was designed merely to ascertain feeling of the French Government.

2. M. Flandin said that this was not a matter on which he could express an opinion without consulting M. Laval; and he warned me that though a formula might possibly be found to cover point (2) he thought point (3) would create difficulty in view of the feeling in the Chamber and that, if the railway bonds scheme was abandoned, it would almost certainly be necessary to maintain the mechanism devised under the Hoover moratorium for the payment of the unconditional annuity. M. Laval telephoned to me this morning that M. Flandin had reported my communication, and he asked me to call upon him this afternoon. He gave me, speaking privately and confidentially, the following preliminary and personal expression of his point of view.

3. He did not mention the railway bonds scheme—which I trust will not now be pressed—but he said that he could not hope to extend the present moratorium by a further year beginning July 1, 1932 unless he had two safeguards. First we must admit the continuance of the mechanism provided under the Hoover moratorium for the payment of the unconditional annuity; he said he could not go before the Chamber without this safeguard and that he would instantly be overthrown if he did. I strongly urged the advantage of a simple suspension of both annuities and pointed out that this would avoid the necessity of Germany's consent and what might perhaps be a long negotiation. He replied that he must have the Hoover mechanism. With that he did not think there would be any difficulty about a complete moratorium for the year beginning July 1st, 1932, but subject to one further condition.

4. He could not give such a moratorium if he was obliged to pay America during that year; and he could not concede a moratorium to Germany if the price was to be a French request for a moratorium *vis-à-vis* America. He said that the Chamber would not accept such a solution; but he considered that he had a trump card to play in the relevant passage of the joint Franco-American communiqué of October 25th, by which he and Mr. Hoover had recognised that, before the expiration of the Hoover year an arrangement covering the period of economic depression might be necessary. The communiqué laid down that the two Governments made all reserves respecting the details of this arrangement, the initiative of which must be taken by the European Powers principally interested within the framework of the existing agreements. He said that he intended to summon the American Ambassador

at once and tell him that he wished to give Germany another year's complete moratorium on the same conditions as during the Hoover year but that if he consented to that and America asked for payments under the Franco-American debt agreement, the concessions which he was anxious to give Germany could not be maintained.

5. He said that if he secured his majority in the Chamber on January 19 he would be ready to agree with us to grant the additional year's moratorium on these terms, but it was useless for him to try to go beyond that. He quite realized our view that it was not desirable to force an immediate issue with America and he would not say that, if Germany did not pay, France would not pay America; but on the other hand he must say that if America asked for payment from France it was impossible for her to maintain the moratorium to Germany.

6. As regards the second point which I had put to M. Flandin, M. Laval said that he wished to be perfectly loyal and not to risk misleading me and that therefore he could not give me an answer until after he had secured his majority in the Chamber. The difficulty was that talk of a permanent settlement created the impression here that there was an intention to go outside the Young Plan and, though he was a realist himself and knew the facts of the situation, French opinion would not at the moment tolerate such a suggestion. He would however consult the Cabinet and sound the leaders of the parliamentary groups and take the feeling in the Chamber during the debate, and he would then tell me what satisfaction he could give us. It is conceivable that, as French opinion is that a 'permanent settlement' was reached by the Young Plan, one could give it satisfaction by talking of a '*complete and permanent settlement*'. The word '*complete*' might be tacitly understood to mean that a permanent settlement was sought not only in respect of reparations but also of debts.

7. M. Laval then raised the question of the Lausanne conference. He said that, if the conference was to be confined to giving the additional year's moratorium, it could, if necessary, take place though it seemed possible (even with the Hoover mechanism for the unconditional annuity) to make that concession without going to Lausanne to do it. On the other hand, if the conference was to consider a wider settlement, he was convinced that in the present temper of the Chamber it could only end in open disagreement and he sincerely hoped that it would be possible to find a means of avoiding it. In deference to our views, because he fully understood that we should not wish to agree to the adjournment of the conference without some satisfaction on the points put to M. Flandin, he proposed that nothing should be said on that question for the next four days, other than that the French Government's decision as to the date of the meeting of the conference could not be definite until after it had been confirmed in power by the vote of the Chamber on January 19 or more probably 20 as the debate would almost certainly last two days. But in the meantime we could take it that he would agree to the moratorium being granted on the conditions stated, if necessary by a declaration of the Creditor Powers made as soon as possible after the Chamber vote.

On the second point raised in Sir F. Leith-Ross's message he would give me his definite answer on the evening of January 20 and the question of Lausanne could then be decided. It is, in my opinion, clear that M. Laval would be much relieved not to have to go there.

8. I gather that M. Laval is anxious that these informal conversations should be kept secret until after the Chamber debate.

No. 28

Sir J. Simon to Sir R. Lindsay (Washington)

No. 38 Telegraphic [C 532/29/62]

FOREIGN OFFICE, *January 16, 1932*

Your telegrams Nos. 766 and 767¹ (of 28th December: War Debts).

It has now become clear that in view of the forthcoming elections in France and Germany, it will not be practicable to achieve a permanent settlement at the forthcoming Conference and that if we press for cancellation now, the only effect would be to harden public opinion in both France and Germany and to make more difficult a settlement later on.

2. In the circumstances His Majesty's Government are forced to the conclusion that they must accept a temporary arrangement to cover the election period. This might take the form of a decision by the creditor Governments to postpone all payments due in 1932-3 as a provisional step and to meet again later in the year to reach a final settlement.

3. But the view is strongly felt both in France and elsewhere that public opinion will not permit of definite concessions to Germany being made without assurances that similar concessions will be made by the United States in regard to war debts.

4. We have been advocating that a settlement should be made with Germany in the first instance without any condition about war debts on the ground that Germany cannot in any case pay anything and that the Hoover-Laval communiqué contemplated such a settlement between the European Powers as a preliminary to action by the United States.

5. But it is clear that the whole problem of war debts must be faced in the near future, at latest December 15 next, and the question of procedure to be adopted is bound to be discussed both before and at the Conference. In these circumstances I sent for United States Chargé d'Affaires on January 15 and gave him, at his request, outline of situation arising out of German Chancellor's declaration and told him our discussions with French were still proceeding.

6. I then asked for his personal views as to relative merits of three following courses, supposing creditor Powers at Lausanne were to arrange among

¹ Nos. 2 and 3.

themselves for a short suspension of reparations and for holding a further Conference after French and German elections:

- (1) Proposal to suspend reparations might be coupled with some condition of America's agreement to corresponding short suspension of debt payments.
- (2) Reparations might be suspended without such condition.
- (3) While attaching no such condition United States Government might be informed in advance of contemplated arrangement for suspension of reparations.

7. Mr. Atherton's view was that it would be better to present United States Government with accomplished fact of an arrangement regarding reparations and that attempt to secure their consent in advance would only embarrass them. He hoped that we should be able to produce a definitive European arrangement after presidential election when it might be that prospects would have improved of America being a party to arrangements contemplated and it would be possible for debtor European countries to approach United States Government individually with a view to the consideration of their claims for relief.

8. As regards his use of the word 'individually' Mr. Atherton said that in his view Great Britain's claim for relief in respect of her debt was widely regarded in America as of a far higher order than that of other countries concerned and that he thought it would be very unfortunate if British claims were to run risk of being discounted by association with claims of other debtors.

9. Do you endorse opinions expressed by Mr. Atherton? Or do you think it would be advisable to approach Mr. Stimson again with request for definite advice as to the date and as to the manner in which this debt question could best be taken up?

10. In any case you should not at the present stage suggest that Great Britain would be unable to resume payment of our debt to the United States in the absence of receipts from Germany, but on the other hand you should abstain from any assurance that we will continue payments in such circumstances.

No. 29

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 23)

No. 38 [C 725/77/18]

BERLIN, *January 16, 1932*

Sir,

I have the honour to report that I had a long conversation with the Chancellor last night on the occasion of the annual dinner given by the President to the Heads of Foreign Missions.

2. Dr. Brüning began by expressing admiration for the way in which British taxpayers had come forward to pay three-quarters of their income

tax at the beginning of the year. This was a phenomenon which would not be found in any other nation. The Germans certainly would not be capable of anything of the kind, apart from the severity of the taxation from which they were suffering in this country. This led the Chancellor to tell me that the Germans were smoking and drinking far less than before and that the yield from the beer and tobacco taxes was diminishing.

3. In order to get his reaction I then mentioned to the Chancellor Sir Walter Layton's speech on the 13th instant in which he had given the figures of the public debts in the principal countries after reparations and war debts had been cancelled. He had apparently quoted a figure of 500 million sterling as being the total German internal debt, and the inference was that Germany would, in consequence, be in a far more favourable position than any other country as a competitor in the world markets. The Chancellor reacted at once and said that the picture thus presented was quite inaccurate for it took no account of the fact that Germany had lost most of her working capital during the inflation period. There was a very common conception abroad, for instance, that the inflation had enabled landowners and other persons to get rid of their mortgages and to start afresh. But their capital had been wiped out as well. The endowments of hospitals and municipal institutions, for example, had disappeared and it had been necessary to re-create such funds. (I may mention in illustration of the Chancellor's argument the fact that both Embassy church and the British Benevolent Fund had considerable endowment funds before the inflation. These were completely wiped out and it had been necessary to endeavour to reconstitute these funds.) Dr. Brüning said that the drain on municipalities throughout the country was, therefore, very great.

4. Dr. Brüning then spoke of the way in which various branches of industry were beginning to decline, especially in Saxony, and I cannot do better than enclose a note¹ on this subject prepared by the Commercial Counsellor to this Embassy, for it reproduces exactly what the Chancellor said to me. The result of this decline in production, which the Chancellor feared would be permanent, was that the taxable capacity of industry would shrink and the Government revenues fall.

5. Finally, I referred to a lecture which Mr. Keynes had recently delivered at Hamburg in which he had spoken of the United Kingdom having gone off the gold standard and had invited Germany to join what he called the 'Sterling Club'. Dr. Brüning said this was quite out of the question. I understood him to say that if the pound sterling appreciated considerably in terms of marks, perhaps to 18, there might be a possibility of linking the German currency to sterling, but this was conjecture, and he was merely expressing a personal opinion. I said, speaking personally, that it seemed to me that it would be difficult to stabilize the pound, anyhow before there had been a settlement of our fiscal policy and of the reparations and war debts questions.

I have, &c.

HORACE RUMBOLD

¹ Not printed.

Lord Tyrell (Paris) to Sir J. Simon
No. 7 Telegraphic: by telephone [C 524/29/62]

PARIS, January 17, 1932

My telegram No. 21¹ Saving.

M. Flandin called on me privately last evening and informed me that he had had a conversation with President of Council at which they had discussed my conversation with M. Laval of January 15.

2. Minister of Finance said that French Government feared that German Government would find itself obliged to make at Lausanne a declaration of inability to pay reparations now and in the future. M. Laval and he were much disturbed at this possibility as, in the event of German Government making such a declaration French Government would be obliged to take up . . .² position; we should no doubt do the same; Italians and Belgians would do so too and Conference would inevitably end in discord with disastrous results for restoration of confidence. He added for our confidential information that when he saw M. von Hoesch last week M. Laval had asked for an official memorandum explaining what exactly Dr. Brüning did say or intend to say in his various interviews about Germany's capacity to pay reparations.

3. M. Flandin said that M. Laval and he (? were)² against Conference taking place at the moment but that they were quite ready to advise French Government to concede an extra year's moratorium on the same conditions as those on which present year's moratorium had been granted. Minister of Finance said that as M. Laval had indicated to me on January 15 was his intention, President of Council had [? seen]² United States Ambassador yesterday morning and had made to him communication forecast in paragraph 4 of my telegram No. 21 Saving. United States Ambassador had replied that attitude of Congress rendered United States Government practically impotent for the moment; there was little use making any communication to his Government unless at least he could inform it that British and French Governments were in agreement respecting grant of a moratorium.

M. Flandin also informed me that M. Laval would be ready to propose to French Government that Conference Powers should be summoned in the near future say June or July to discuss not only reparations but also economic financial questions in fact same conference as . . .² had in mind at one time to have last year. This would have advantage of possibly securing presence of United States who are reported to have declared their readiness to participate in international economic financial conference whereas conference on reparations alone excluded America's participation.

M. Flandin emphasised entirely unofficial character of his communication on which he would be glad of your observations at the earliest possible moment. In case of its general acceptance he expressed strong hope that conversations would continue with a view to secure co-operation of our two Governments on all these questions.

¹ No. 27.

² The text here is uncertain.

No. 31

Lord Tyrrell (Paris) to Sir J. Simon
No. 8 Telegraphic: by telephone [C 525/29/62]

PARIS, January 17, 1932, 10.45 p.m.

My telegram No. 7¹ of today paragraph 3.

I should have made it clear that although M. Flandin definitely states that M. Laval and he would be ready to recommend French Government to grant a further year's moratorium immediately if that was necessary in order to meet our wishes, they did not really consider that it was necessary to take this decision before the eve of the expiration of the Hoover year, that is next June or July. I presume that you understand that M. Laval does not feel himself empowered officially to put forward any proposal whatever until after he has been confirmed in power by a vote of the Chamber.

¹ No. 30.

No. 32

Sir J. Simon to Lord Tyrrell (Paris)
No. 16 Telegraphic [C 524/29/62]

FOREIGN OFFICE, January 18, 1932, 1.30 a.m.

Your telegrams No. 21¹ Saving and No. 7.²

1. We should still prefer plan of granting Germany additional year of moratorium to July 1, 1933, without repeating the Hoover mechanism both because concession in this form would not require the assent of Germany and on other grounds. Agreement between Creditor Governments on this *décalage* together with agreement for conference later in the year for purpose of arriving at complete and permanent settlement might produce an interim solution without any conference being held this month. Obviously, repetition of Hoover mechanism would require assent of Germany. But in order to assist common action we are prepared, provided that future conference is agreed and announced on lines indicated in following paragraph, to do our utmost to secure Germany's agreement to continuance of Hoover mechanism and we are taking steps confidentially for this purpose immediately. It will of course be understood that repetition of Hoover procedure should be subject to the railway bonds obtained from Germany being retained by Bank for International Settlements for joint account of the Creditor Governments or in accordance with other equitable arrangements being made to safeguard their rights.

2. As regards conference to secure complete and final settlement of reparations later in the year, we are not averse to international discussion on wider economic and financial questions but are confident that all these topics cannot

¹ No. 27.

² No. 30.

be successfully amalgamated in a single conference. Reparations constitute a specific and urgent problem and conference on this should take place first. Moreover, we gravely doubt whether America would be willing to take part in any conference in which reparations were specifically involved. The other subjects require much preliminary examination and might constitute the subject of an immediately following conference in which America would be invited to join.

3. Your telegram No. 8.³

In view of near approach of date proposed for Lausanne Conference an announcement of the year's moratorium ought to be made this week but we quite understand that the proposal remains entirely confidential till the French Government has met the Chamber on Tuesday. British Government must make some statement of a definite kind regarding its policy in relation to Lausanne within a few days.

4. We are very much disappointed at the failure of the French Government to reach agreement with us after our advances to their position and we are beginning to be afraid that the announcement we may have to make will be one which regrets our failure to agree and expounds our own point of view. It is impossible for us to leave matters unsettled much longer.

³ No. 31.

No. 33

Sir R. Lindsay (Washington) to Sir J. Simon (Received January 18)
No. 28 Telegraphic [C 533/29/62]

WASHINGTON, January 17, 1932

My immediately preceding telegram.¹

Senator Reed's utterances about debts have recently been rather offensive. For instance on January 9 he broadcast a speech against cancellation or postponement and accused His Majesty's Government of taking advantage of temporary depression to get out of paying debts and on December 15 in the Senate he asked how a Power with so many colonies and with museums full of treasures could say 'exchange is against us and we cannot pay'. His present statement is in striking contrast to above, and acquires further importance from the following circumstance.

On January 14 Mr. Castle called on me by appointment at the Embassy though of course I was ready to go to State Department. He came he said because he was speaking not for Administration but for an individual

¹ Not printed. This telegram summarized a statement to the press by Senator Reed on reparations and war debts. Senator Reed, while making clear his view that German inability to pay further reparation could not be regarded as automatically cancelling debts, pointed out that the economic crisis, notably in the case of Great Britain, had affected the normal capacity of debtor States to meet their obligations irrespective of reparation payments. Senator Reed therefore thought it 'inconceivable that the United States would not sympathetically consider a proposal for temporary adjustment based on a temporary diminished capacity'.

Senator, Mr. Reed, on whose behalf he had a message to give me. The Senator he said had opposed (? re-establishment)² of War Debts (? Commission)² because he had misunderstood purpose and scope of what the President had proposed. He had also felt that his previous utterances had been greatly misunderstood and he had received many communications about them from the public. He intended to issue a statement to correct these misapprehensions (and Mr. Castle gave me the gist of statement as since issued). Senator had consulted several influential colleagues including Borah who entirely agreed. He had thought of pronouncing himself in a speech in the Senate but discarded the idea because speech would only be part of debate and would make less impression than an isolated *ad hoc* statement. Senator regarded the position of Great Britain as entirely separate from that of the other debtor countries. Creation of situation in which His Majesty's Government might be forced into repudiation was something to be avoided at any cost. It would turn opinion in England into a feeling of permanent hatred towards America. Senator wanted me to know in advance his intended action—hence Mr. Castle's visit. I made suitable acknowledgements.

² The text here is uncertain.

No. 34

Lord Tyrrell (Paris) to Sir J. Simon (Received January 18)

No. 9 Telegraphic [C 567/29/62]

PARIS. *January 18, 1932*

Your telegram No. 16.¹

I again saw M. Flandin privately this afternoon. I explained to him once more your strong preference for moratorium without Hoover mechanism but he repeated what Laval and he have both told me several times that mechanism is essential to maintain majority in the Chamber. In these circumstances I told him that in order to assist in common action you would accept moratorium *with* Hoover mechanism subject to agreement respecting future conference and German agreement respecting mechanism. Flandin accepted last sentence of paragraph 1 of your telegram.

2. Minister of Finance, after warning me that he had not yet obtained M. Laval's formal approval and that this could not be given until after vote in the Chamber, then proposed, speaking privately and unofficially, following procedure.

3. French and British Governments should make a joint declaration during latter part of this week (1) that, after careful exploration of situation they did not consider meeting at Lausanne necessary at the present juncture; (2) that they were willing to propose to the other Governments concerned grant to Germany of an additional year's moratorium from July 1, 1932 *under the same conditions as Hoover moratorium*. (3) That they intended to propose

¹ No. 32.

to the Assembly at as early a date as possible a conference 'to study the means of remedying in a lasting manner the economic and financial difficulties which were responsible for and might result in prolonging the present crisis'.

4. I asked M. Flandin what attitude he thought French Government intended to take respecting war debt payments due by France to America during additional year's moratorium. He replied he was against any reference to these payments other than that implied by the words 'under the same conditions as the Hoover moratorium'. One of the conditions of that moratorium had been the suspension of the European war debt payments to America; and if America demanded those payments during the year beginning July 1, 1932 the wording proposed above implied that conditions of the Hoover moratorium would not have been fulfilled. But it was unnecessary to enlarge on that at the present juncture; and his impression was that the less that was said on the point now the better would both you and the Americans be pleased. He said that as Hoover moratorium was due to an American initiative America could not with any decency go back for one more year on the conditions on which that moratorium was granted.

5. As regards the formula for assembly of conference I pressed vigorously the point of view set out in paragraph 3² of your telegram No. 16. M. Flandin told me that from the way in which matters were developing in lobbies of the Chamber the Government would not be strong enough to agree now to talk of permanent settlement of the reparations question alone. He drew my attention to M. Blum's article in to-day's 'Petit Parisien' urging (1) the maintenance of principle of reparations which were intended to cover the damage done in devastated regions (2) payment in proportion to currency and commercial possibilities and (3) no changes in agreements contracted save with consent of all parties. He said that this article should show us the danger of banking on a real change of French policy as regards reparations even in event of a Left victory in April. France could not now accept a permanent reparation without a debt settlement and there was no reason to suppose that she would be able to do so in June. The leading members of the Left—and M. Caillaux himself so informed me this afternoon—share M. Blum's view that completely unconditional cancellation of reparations will never be carried by any French Government. We were inclined to press for cancellation of reparations and rely on America following suit as regards debts but France could not take that risk and any French Government who took it would be out immediately. In these circumstances M. Flandin was sure that French Government would not accept the formula suggested in your telegram i.e. the division of the future conference into two stages. He fully agreed with you that America would not attend a conference on agenda of which there was specific mention of reparations. This was reason why he had originally proposed to me an agenda of some wide and more general nature and these were the reasons for which he hoped you would be able to accept the formula set out above.

² This appears to be an error for 'paragraph 2'.

6. If you can see your way to accept this formula with any modifications you may desire not infringing on above principles I think I could obtain unofficial approval here when it would only remain to announce it in the latter part of the week in whatever way is finally agreed between the two Governments.

No. 35

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 21 Telegraphic [C 572/29/62]

FOREIGN OFFICE, *January 18, 1932*

His Majesty's Government, faced with the fact that a permanent settlement of reparations problem on lines desired is impracticable at Lausanne this month, as is also a long term moratorium, which is opposed by both French and German Governments for different reasons, have had to modify their policy. They have now proposed to French Government that Creditor Powers should not claim any payments from Germany for a year from July 1 next, and should declare their intention of arriving at a permanent settlement later—say at a Conference convened in July for this purpose.

2. In making these suggestions privately to the French Government the following points have been emphasised:—

His Majesty's Government (a) dislike the Railway Bonds scheme; (b) would prefer simple suspension of payments, thus avoiding a continuance of the elaborate Hoover moratorium machinery which entails German consent; (c) desire to avoid attaching any condition to moratorium involving United States of America's co-operation.

3. To these suggestions the French Government have now replied unofficially in the sense (a) Conference if held this month owing to probable German attitude will merely lead to an *impasse*; (b) suggesting summoning of Conference in June or July to deal not only with reparations but also with economic and financial problems, with possible United States of America's participation; (c) agreeing in principle to grant of an extra year's moratorium to Germany, but insisting on same conditions as present moratorium.

4. My telegram to Paris No. 16¹ contains the views of His Majesty's Government on the French reply as set forth in paragraph 3 above.

¹ No. 32.

No. 36

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 54 [C 565/29/62]

FOREIGN OFFICE, *January 18, 1932*

Sir,

I asked Herr von Neurath to see me this morning and discussed with him the present situation of the reparations question. The date proposed for the

Lausanne meeting was only a week off and we still had no firm promise from France to attend. It was therefore urgent to review the position, and I wished to ascertain, with as little delay as possible, the view of the German Government upon it.

I reminded the Ambassador that before he left for Berlin some ten days ago, I told him that the British Government were convinced that the only effective solution would be provided by the complete cancellation of reparations, but that, looking at the immediate problem in a practical spirit, we had been considering plans for a temporary suspension. He had then told me, and I understood it was still the view of his Government, that a short period of suspension would be preferred to a longer one and I added that we ourselves, on further consideration, were disposed to take the same view. Herr von Neurath confirmed me on this point.

I then said that, being so far in agreement, we now came to the conditions attached to a short period of suspension, and this was the particular matter on which I desired to ascertain the view of the German Government. Matters appeared to be tending in the direction of a suggestion that the Hoover mechanism should continue to apply during this further period, with the result that there would continue to be payment to and re-lending by the Bank of International Settlements. We desired to know how the German Government would regard this proposal. I made it clear to the Ambassador that it was not a proposal put forward by us, but, on the other hand, we had the strongest reasons to believe that agreement could not be reached by insisting on the omission of this condition. I pointed out that we were taking considerable risks in promoting any agreement for the suspension of reparations, for we had no corresponding assurance of relief from American debt, and we felt that if we took some risk in an endeavour to secure European agreement, Germany should do so too. The alternative to reaching an arrangement very promptly was an *impasse* which was bound to lead to confusion and embitterment of feeling, and which must react seriously on Germany's credit and financial position. The Ambassador could judge for himself the degree to which British opinion recognised the difficulties of the German position and desired to promote appeasement; it seemed to us that an accommodating attitude would best preserve this sympathy with the German point of view. While we appreciated the difficulties of the German Government in accepting, it was our belief that the French Government would not be able to adopt the immediate abandonment of the Hoover mechanism.

Herr von Neurath said that he would communicate with his Government to-day, and hoped to let me have Dr. Brüning's answer to my enquiry to-morrow afternoon. I gathered that he had already indicated to his Government the probability of a proposal that the Hoover mechanism should be continued, though he said that it would be difficult for the Chancellor, in view of the state of German opinion, to make the concession. There was another condition which would be essential, viz., that there should be a firm agreement now for a resumed conference to reach a permanent settlement at a later date this year. I said that the British Government entirely agreed

and would also insist on this second condition. As regards the period of suspension, Herr von Neurath repeated the view he had previously expressed to me that six months was better than twelve months; he thought that if the suspension continued until July 1933 it would be more difficult to make sure of a resumption of the conference at an early date. I mentioned the complication created by the American Presidential election in November, and threw out the suggestion that possibly nine months might be a compromise.¹

I am, &c.

JOHN SIMON

¹ A summary of this conversation was telegraphed to Sir H. Rumbold on the evening of January 18. In a later telegram of January 18, Sir H. Rumbold was asked to speak in a similar sense to the German Government.

No. 37

Letter from Sir J. Simon to Lord Tyrrell (Paris)

[C 631/29/62]

FOREIGN OFFICE, *January 18, 1932*

My dear Tyrrell,

The confidential paragraph at the end of my despatch¹ No. 16, which you will have received this morning, will show you how gravely we regard the situation which is arising about Lausanne and the discussion of reparations.

It was common ground, even before the Basle Committee was appointed, that a conference of Governments should promptly follow the experts' report and certainly the contents of that report do not make an early meeting any the less necessary. The consequences of further delay are bound to be extremely serious. American opinion will not fail to note that, although the Hoover-Laval communiqué has declared that the initiative lay with Europe, Europe shows itself incapable of effective action and once again takes refuge in mere postponement without result. Such a course only encourages vehement declarations, such as those by Mussolini and Brüning, and the British Government, which has been patiently trying to act as a loyal co-operator, is in danger of incurring general reproach.

But the serious consequences of the delays caused by the French Government are not limited to reactions abroad. We must expect a serious attack to be launched by our domestic critics—indeed the beginnings of this appear in the London papers to-day. The present feeling regarding France in sections of British opinion is not too good, and with the resumption of Parliament on February 2nd, the campaign may be taken up by Opposition parties who will realise they have a great opportunity—and the ultimate

¹ The reference appears to be to paragraph 4 of telegram 16 printed as No. 32 in this Collection.

consequences cannot be foreseen. You know how sincerely His Majesty's Government is working for the purpose of friendly co-operation with our friends in Paris and how we do our utmost to suppress every cause of friction and ill-feeling. But our Government cannot carry acquiescence beyond a certain point and still retain its authority in its own country. What I foresee is that if the Lausanne Conference is postponed (except on conditions which are generally accepted by everybody including Germany) and still more, if it is meant to replace it by a quite different kind of conference at some uncertain date in the future, the resentment of public opinion in this country will be so great that the Government will be compelled to make its position clear.

We have done everything we could to get such an agreement as would make the conference possible and its work successful, but by the end of this week we shall have reached the actual date proposed for Lausanne. Consequently, failing a very prompt arrangement which is generally approved, we shall be in the position that we cannot allow it to appear that we have agreed to a policy which in effect keeps the Young Plan going without modification, in spite of the experts' report that prompt adjustment is absolutely essential—a policy which we are convinced would be most unfortunate for Europe and would be deeply resented by our own public.

The suggestion which you reported in your telegram No. 8² last night that there is no need to take any decision about a further moratorium before next June or July is, from our point of view, entirely inadmissible. Apart from the disastrous impression of futility which would be created after all the plans for Lausanne this month, there is the further reason that the Standstill Arrangement terminates on February 29th and our short-term creditors must know where they stand before that date.

I have seen the German Ambassador this morning and I enclose, to save time, a copy of the record³ of our conversation. We will do everything possible to induce Germany to accept the condition preserving the Hoover moratorium and will report to you the result, and we are doing this for the single purpose of helping to secure agreement without delay for an additional year of moratorium, provided, of course, (and this is essential) that this is accompanied by an agreement for a conference during the period of suspension for the purpose of reaching a permanent arrangement.

To sum up, you see from the account of my interview with the German Ambassador this morning that we have done our best to put pressure on the German Government to accept a solution acceptable to the French (i.e. a short prolongation of the suspension plus the Hoover year machinery). If the German Government accept, well and good, though there will still be the gravest dissatisfaction here with Government action, which will be largely interpreted as a failure. The French are thus already asking a very great deal of us as a Government. But if, in the slightly more probable event of the German Government refusing, in spite of our pressure, we shall at the very least have to look after ourselves as well as we can. This will involve

² No. 31.

³ See No. 36.

a full statement of our position at a very early date. This, in turn, will involve a considerable strengthening of the hand of those who maintain that co-operation with France is *in practice* unfruitful, if not impossible, and this in turn will surely involve a deterioration of Anglo-French relations which we shall deeply regret but be unable to avoid. (For the Hoover year machinery is a pettifogging unreality, as we all know.) I have thought it best to put this plainly before you, and it will be for you to judge how plainly you should warn the French. (What we really feel is that we shall have done our best, but the French won't have done theirs.)

Yours ever,
JOHN SIMON.

No. 38

Sir R. Lindsay (Washington) to Sir J. Simon (Received January 19)

No. 30 Telegraphic [C 578/29/62]

WASHINGTON, *January 18, 1932*

Your telegram No. 38¹ was received after my telegram No. 29² of yesterday had been drafted. Latter inferentially answers your questions and you will have gathered that I entirely agree with Atherton's view. We should signally fail to get any response from Administration on anything short of a complete or nearly complete settlement of reparations between Germany and her creditors; and I entirely endorse his view that Great Britain as regards her debt to America is now in a category different from that of any other country. We only lose by having to be associated with them. Of course, His Majesty's Government cannot materially dissociate themselves from them and I am not surprised to learn that Reparations Conference is likely to end in what will here be regarded as an impotent conclusion but I beg that in this connexion you will read again paragraphs 3 and 4 of my telegram No. 10.³ We have a goodwill here which it is important to preserve and I hope that at Conference or in Parliament it will be possible for His Majesty's Government to make it unambiguously clear that what they really desire as a first step is a settlement with Germany without any condition about war debts, and that anything else is a *pis-aller*.

¹ No. 28.

² Not printed. In this telegram Sir R. Lindsay gave his opinion that Senator Reed's statement and Mr. Castle's reference to it were intended to convey 'the anxiety of the Administration lest His Majesty's Government should so align themselves with other European Governments at the forthcoming Conference as to pass back to the United States Government the onus of taking decisions or the odium of again refusing to take an initiative.'

³ No. 8.

*Sir J. Simon to Sir H. Rumbold (Berlin)**No. 58 [C 619/29/62]*FOREIGN OFFICE, *January 19, 1932*

Sir,

The German Ambassador called this morning to report the result of the communication he had made at my request to his Government yesterday. He told me that he had telephoned a report of our previous interview to Berlin and had spoken personally with the Chancellor; there had then been a meeting of German Ministers upon it; and later in the day Herr von Bülow had communicated the result to Herr von Neurath. The decision at which the German Government had arrived was that it could not agree to the continuation of the Hoover mechanism for a further period of suspension of reparations. The Ambassador added that the German Government still hoped very much that there would be a conference at Lausanne, even though the date had to be postponed for a few days, and desired to insist that there must be a definite solution of the reparations question between now and June.

I told the Ambassador that I was very much disappointed at the German reply, and asked whether Herr von Bülow had given him any statement of the reasons for the decision. Herr von Neurath said that no reasons were stated. He had supposed that the German Government felt that the political position in Germany made no other answer possible. He had not failed to make it plain that the plan to which the German Government were asked to assent was not a British proposal, but was in our opinion the best way of securing some agreement for a temporary suspension. I said that was so, but that the position taken up by the German Government would make it impossible for us to help in securing an agreement which was so much to be desired. How could a conference take place at Lausanne if the French were not prepared to attend? And what was the good of insisting that there ought to be a definitive conference before June if the parties were not brought together to agree now that this should be so? If Germany was counting merely on refusing to pay reparations without any fresh agreement, conferences were not needed. If she wanted a conference, she had to consider what contribution she could make to get it.¹ Otherwise declarations might be made in the French Chamber which would only widen the gap, and all this would make the reaching of agreement by conference later in the year more difficult than ever.

Herr von Neurath expressed to me the appreciation of the German Government for the effort we were making to bring the parties to a common agreement, and admitted that he himself had so far appreciated the force of our arguments that he had personally expressed a view that the acceptance of the Hoover machinery might be a necessary concession.

¹ In a telegram (No. 22) of January 20 Sir H. Rumbold stated that he had emphasized this point in all his conversations with Herr von Bülow.

The Ambassador said that he would communicate further with his Government and report the substance of our present conversation, and, if he had anything further to tell me, I should be informed immediately.²

I am, &c.

JOHN SIMON

² A telegram of January 19 to Sir H. Rumbold summarizing this despatch concluded as follows: 'The attitude of the German Government seems most unhelpful. There has hitherto been, as you know, a good deal of sympathy here for the German case. The attitude now foreshadowed will destroy all this and the Germans will simply appear as people who are always asking for something to be done for them and are never willing to do anything in return. There will be in this instance much force in the criticism and you should warn the German Government very plainly of the inevitable reaction.' In a later telegram of January 19, Sir H. Rumbold was asked to take action at once with the German Government. Sir R. Graham was also instructed to ask Signor Grandi to speak in a similar sense to the German Government. Sir R. Graham repeated on January 21 that Signor Grandi was ready to make representations in Berlin but that Signor Mussolini refused to allow him to do so, since he (Mussolini) favoured 'a definite and final solution' i.e. complete and immediate cancellation.

No. 40

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 19)

No. 15 Telegraphic [C 623/29/62]

BERLIN, January 19, 1932

Your telegrams Nos. 22 and 23¹ acted on.

Secretary of State whom I was able to see immediately said that German Ambassador had telephoned direct to Chancellor yesterday afternoon substance of his interview with you and that Chancellor had sent a reply last night of which the following is substance:

'German Government are grateful for efforts being made by His Majesty's Government in connexion with Lausanne conference and trust that they will continue these efforts. On their part the German Government will do all they can to fall into line with other Governments. They would agree if necessary to a week or ten days adjournment of conference in order to suit the French. They will have to press from the first for a definitive solution of reparations question on account of world economic crisis and not only on German account. If as seemed possible Lausanne conference had to be adjourned German Government earnestly hoped that it would meet again not later than June. They could not agree to a further year's moratorium to which Hoover mechanism would apply.'

I read to Secretary of State your telegram No. 23 recording your interview with German Ambassador and pressed him as hard as I could to agree to accepting Hoover mechanism in connexion with proposed short further moratorium pointing out the difficulty of situation which would arise if they

¹ Not printed. See No 36, note 1.

did not give their consent. Secretary of State said that he would see the Chancellor as soon as possible and let me know if they were able to modify in any way reply which he supposed German Ambassador would have conveyed to you this morning. He did not however anticipate that the German Government would be able to modify their reply. He said quite categorically that the German Government could not agree to pledge German railways any further as this would mean a piling up of obligations for the future and they could not shift from the position that they were unable to undertake to resume reparations payments at 'any foreseeable time in the future'.

Secretary of State practically admitted that he and the Chancellor had not fully appreciated the real points made by you in your conversations with German Ambassador yesterday as to the necessity for German consent to application of Hoover mechanism in connexion with a short further moratorium if an *impasse* at Lausanne was to be avoided.

No. 41

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 19)

No. 16 Telegraphic [C 624/29/62]

BERLIN, *January 19, 1932*

My immediately preceding telegram.¹

I was struck by the almost bitter tone of Secretary of State's remarks in connexion with probable insistence of French Government on maintenance of Hoover mechanism in regard to any short further moratorium which might be agreed on. He said Germans were tired of standing between the French and hard facts of situation. The French Prime Minister had told German Ambassador in Paris that he would be obliged to declare that French Government could not accept the German thesis that Germany could not pay reparations either now or in the future, in spite of the fact that German Ambassador had explained that German Government had not gone so far but had said that Germany was not capable of paying reparations at any foreseeable time in the future.

Secretary of State said that Germans did not intend to part with any assets remaining to them and German railways were an asset. I gathered very confidentially that Germans foreseeing that they will need fresh credits at no distant date wish to keep railways as free of charges as possible as a pledge for such credits.

¹ No. 40.

No. 42

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 20)
No. 17 Telegraphic [C 625/29/62]

BERLIN, January 19, 1932

Your telegram No. 25.¹

I have seen Chancellor to whom I spoke on lines of your telegram under reply. He had not yet heard from German Ambassador.

The point to which he attaches the utmost importance is that Lausanne Conference should not be adjourned to a date later than June. If he can be assured of this he will try to persuade his colleagues to accept the continuation of the Hoover mechanism in connexion with a short moratorium but he cannot decide this point on his own responsibility and will have to discuss matter with his colleagues tomorrow morning. He promised to let me have a reply by 11 a.m. He cannot get his colleagues together tonight. He repeated what I have reported in my telegram No. 2² to the effect that he thinks that he can control the situation here for another six months but that he cannot guarantee that there will be a moderate Government in office after that. That will depend on developments and he emphasized that he cannot continue to call on the German people to make sacrifices indefinitely without assurance of a speedy and final settlement of reparation question. He is particularly grateful to His Majesty's Government for their efforts in connexion with Lausanne Conference and will do all he can to meet them and avoid raising difficulties. You will, in the meantime, have received my telegrams Nos. 15 and 16.³

¹ Not printed. See No. 39, note 2.

² No. 10.

³ Nos. 40 and 41.

No. 43

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 20)
No. 19 Telegraphic [C 652/29/62]

BERLIN, January 20, 1932

My telegram No. 17.¹

German Chancellor's reluctance to envisage postponement of conference beyond June is certainly due to serious reasons both economic and political.

In my judgment financial economic and political situation is such as fully justifies his apprehensions.

Financially strain both internal and external on Reichbank remains very severe and losses of gold and foreign exchange continue. Banks have therefore to continue to press their clients with inevitable result that business for them and any possible restoration of confidence or credit is retarded. To hold financial situation until June will be difficult but not impossible

¹ No. 42.

especially if a conference is announced for that date since this holds out hope that something definite will happen to ease the strain at a not too distant period. But to postpone conference until October defers this hope and seems equivalent to condemning Germany to carry on indefinitely under present strain which is universally held to be impossible. Meanwhile as Minister of Finance told me this morning estimates of revenue are growing progressively worse ever since the Basle report.

Economically facts point towards progressive atrophy of all activity. Since cessation of orders from Russia the heavy industries of Western Germany have shown alarming drop in production, many branches of the textile industry are nearly paralysed by import restrictions of other countries, metal industry is dismissing men by tens of thousands and heavy rise in unemployed figures must be anticipated when next returns appear. In spite of constant reduction of prices there is no prospect of improvement in home markets, rather the reverse, and December figures of foreign trade show progressive restrictive effect of protective measures in other countries and of declining purchasing power of the world. On that account development can lead only to one result which would involve cessation of commerce and industrial activity. If present uncertainty continues progression of economic deterioration will become more rapid and many observers are of the opinion that Chancellor's estimate of being able to hold the country together till June is too optimistic.

Politically Hitler's organs are already saying that prolongation of moratorium would be no less...² than previous acceptance of Young Plan. If matters are allowed to drift there is a real risk that the Brüning Government may be swept away long before October and replaced by a National Socialist combination which will flatly reject emergency plan and refuse all further reparation payments. You will be in a better position than I am to judge reaction this would have on the Disarmament Conference.

² A word appears to be missing.

No. 44

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 20)

No. 20 Telegraphic [C 649/29/62]

BERLIN, January 20, 1932

My telegram No. 17.

Secretary of State tells me that Chancellor and relevant ministers and experts exhaustively discussed this morning question of whether they could accept continuation of Hoover mechanism in connexion with a short further moratorium. Question was examined from every angle as German Government were fully alive to difficulty of the situation. Ministers concerned however had come to the conclusion that they could not accept above mentioned proposal as it would run counter to report of Basle committee (please see in particular last sentence of page 16, paragraphs 2 to 5 on page 19, last

two paragraphs on page 20 and last two paragraphs on page 42¹). German Government also considered that if they were to accept proposal in question they would be undertaking obligations which they could not meet. Such a proceeding would therefore be dishonest.

German Government did not see why an extension of moratorium with continuation of Hoover mechanism need be considered at all at forthcoming conference. They had understood from French Prime Minister after his visit to Washington that a conference would follow on meeting of Basle committee. No conditions were attached to this statement. They do not expect any definitive results from forthcoming conference but if, as they hope, latter is adjourned to a date not later than the middle of June it would still be held within the Hoover year. All I could say was that German Government by their attitude were risking bringing about an *impasse* at the approaching conference. Secretary of State said that German Government had no intention of tearing up Young Plan.

In illustration of gravity of financial situation he repeated a statement made by Minister of Finance at this morning's meeting to the effect that since meeting of Basle committee it had been found that receipts in connexion with budget of 1932-33 would fall short of estimates by one milliard marks.

As regards attendance of French at Lausanne Conference Germans only know that French Prime Minister informed German Ambassador that he could not bring this question before the Cabinet until he had received a vote of confidence in the Chamber.

Italian Ambassador has not yet made any *démarche*.

¹ These references are to the edition of the report issued by the Bank for International Settlements.

No. 45

Lord Tyrrell (Paris) to Sir J. Simon

No. 12 Telegraphic: by telephone [C 651/29/62]

PARIS, January 20, 1932, 7.15 p.m.

After a series of conversations with MM. Laval, Flandin and Berthelot, I have obtained a modified formula. M. Laval has also invited Mr. MacDonald to visit Paris during the weekend.¹

2. A telegram explaining the position and the invitation in detail should reach you, I hope, *en clair*, by telephone between 9 and 10 this evening.

3. M. Laval would be grateful if he could know your decision on the various points raised in the telegram mentioned in paragraph 2 before 3 p.m. to-morrow when the Chamber debate will be resumed and when he will hope to be able to announce Prime Minister's visit in his speech.

¹ In a reply of January 1 to a personal letter from Mr. MacDonald (see Vol. II. No. 319 of this series) M. Laval had invited Mr. MacDonald to Paris for a discussion before the meeting of the Lausanne Conference. The French Government fell on January 12 before Mr. MacDonald had replied to this invitation.

4. In the meantime French Government point out that certain delegations will be starting for Lausanne almost immediately. In these circumstances they ask if you would agree to them sending following message to French representatives in capitals concerned:

Begins 'British and French Governments are exchanging views respecting meeting of Lausanne Conference. Inform Government to which you are accredited that two Governments do not think that conference can meet as early as 25th but only at a later date' ends.

French Government would be grateful for an immediate reply on this point.

No. 46

Lord Tyrrell (Paris) to Sir J. Simon

No. 13 Telegraphic: by telephone [C 652/29/62]

PARIS, *January 20, 1932, 9.30 p.m.*

My immediately preceding telegram.¹

President of Council spoke to me to-day at luncheon about reparation negotiations and told me that M. Berthelot would communicate to me officially this afternoon the formula of which an unofficial copy was contained in my telegram No. 9.²

2. This formula with the modifications which I have obtained after a long and detailed discussion with MM. Laval, Flandin and Berthelot, now reads as follows:—

Formula begins. 'British and French Governments, *having taken note of the conclusions of the Basle Committee*, declare that they are in agreement:

'(1) to accept, so far as they are concerned, the prolongation, from July 1st next and for one year, of the moratorium now in force;

'(2) to summon, for the month of June next, an international conference, the task of which will be to examine the means of finding a lasting remedy for the economic, financial and currency difficulties which are responsible for, and might result in prolonging, the crisis from which the world is suffering.

'Under these conditions they do not, so far as they are concerned, see the necessity of the assembly at Lausanne of the conference proposed for the end of this month.'

Formula ends.

3. I would draw your particular attention to the fact that the sub-section respecting the grant of the moratorium and that regarding the June conference are both covered by the specific reference to the report of the Basle Committee. It can now therefore be maintained that the 'economic, financial and currency difficulties' mentioned in the formula are those which the Basle experts

had in mind in the conclusions to their report and which include, and for us centre round, the reparations question.

4. During this afternoon's discussion I pressed strongly that the sub-section relating to the moratorium should read: 'to agree, so far as they are concerned, to the grant from July 1st next of a moratorium of one year under the conditions set out in Article 2 of the Protocol concerning Germany signed in London on August 11th 1931'. I could not secure this, though I explained that the French Government was at liberty to state independently, as indeed has already been done in the ministerial declaration of yesterday, the attitude which it would take up if America insisted on payment during the moratorium period. I then asked that the sub-section should read: 'to agree, as regards their relations with Germany, to a prolongation of the Hoover moratorium as at present defined'. This wording also I could not obtain; and it was then only that I agreed to refer to you the present draft. I refused categorically to refer a draft reading: 'to agree, so far as they are concerned, to a prolongation from July 1st next and for one year, of the Hoover moratorium as it is at present defined'. I would point out that the present wording is open to less objection at least than the wording contained in my telegram No. 9,² and also than that which I refused to refer to you. I do not think that it can be said to commit us in advance as regards our attitude to America. It is clearly understood that the above arrangement is conditional upon German acceptance.

5. M. Laval made it very plain to me that this formula is as far as he dares to go in view of the feeling in the Chamber; and both he and M. Flandin told me that the Government could not go beyond it or it would be 'broken in pieces' in the Chamber. Speaking with emotion and gravity M. Laval asked me to draw the personal attention of the Prime Minister and yourself to the dangerous possibilities which the position here contains. Anything like a break at the present juncture might result in the nationalists sweeping the country in April and the consequent postponement for an indefinite period not only of any reparation settlement but also of the resumption of general economic and financial stability. I can fully endorse this statement and would refer you in particular to my private letter of yesterday.

6. M. Laval told me that he thought that the moment had now arrived at which a personal conversation between the heads of the British and French Governments was essential, and he asked me to state that he would be very grateful if the Prime Minister could now come to Paris to discuss with him the whole reparations position of the two Governments, the financial and economic difficulties which the two countries were encountering and their general relations including the question of the surtax. He said that he would be glad to receive Mr. MacDonald on Saturday, Sunday or Monday next and he declared that he would be very happy to return the visit. He said that a Franco-British agreement was essential and that he 'passionately desired' to reach it and that unless it was obtained he feared that the general situation must rapidly deteriorate. He said that the Prime Minister would

² No. 34.

be cordially welcomed in Paris by himself and the whole of his Government and that Mr. MacDonald would see that he wanted not only agreement but *close* agreement with Great Britain; the two countries must move forward together 'hand clasped in hand'. He intended to agree with Mr. MacDonald and he would not allow him to return to London empty-handed. He fully realised that a visit of this nature could not be undertaken unless it succeeded and that was why he had followed with such anxiety the conversations of the last few weeks.

7. The details of the procedure which, subject to the consent of His Majesty's Government in the United Kingdom, is now proposed, are as follows:—

- (1) The despatch to-night or at latest to-morrow morning of the telegram mentioned in paragraph 4 of my immediately preceding telegram.
- (2) The announcement by M. Laval in the Chamber of Deputies to-morrow afternoon, of the Prime Minister's visit to Paris, accompanied by some cordial reference to the importance of Franco-British cooperation.
- (3) The Prime Minister's visit which M. Laval hopes will be terminated by the announcement of a Franco-British agreement on the basis of the formula contained in paragraph 2 above, as well if possible, of some settlement respecting the surtax and of the intention of the two countries to cooperate closely in future as the preliminary condition of the promotion of a more general cooperation including first and foremost Germany and of the maintenance of peace and stability in Europe.

No. 47

Lord Tyrrell (Paris) to Sir J. Simon

No. 14 Telegraphic: by telephone [C 653/29/62]

PARIS, January 20, 1932, 10 p.m.

My immediately preceding telegram.¹

In asking me to convey his invitation to the Prime Minister M. Laval asked me to say that one of the main reasons why he wished this meeting to take place was his desire to be able to announce it to-morrow in his speech in the Chamber with a view to calm the excitement largely due to the attitude of Germany which has very much strengthened the belief that she is bent on tearing up all treaties and engagements.

2. He very much dreaded this becoming the main issue in the electoral campaign and thereby securing the return of a nationalist majority which he considers would be a curse for us all. He is convinced that if he can

¹ No. 46.

only gain time to tide over the electoral period we shall be able to arrive at a satisfactory settlement in the June conference.

3. He is equally convinced that his meeting with the Prime Minister will secure agreement in all the immediate questions at issue.

4. I think he is quite sincere in his desire to seek cooperation and I would therefore strongly urge acceptance of his invitation.

5. He expressed his fear that if this attempt to secure it failed, he would be compelled by his public opinion to throw in his hand, sit tight and do nothing and let the election be fought on theory that the treaties are in danger and that France must rely upon herself alone to defend them.

No. 48

Sir J. Simon to Lord Tyrrell (Paris)

No. 21 Telegraphic: by telephone [C 653/29/62]

FOREIGN OFFICE, *January 21, 1932*

1. Your telegrams Nos. 13 and 14¹ of 20th January were before the Cabinet this morning. It is absolutely impossible for the Prime Minister to leave England this week-end. We are sure that M. Laval will appreciate that while we were glad to help him to meet his political exigencies by postponing the proposed date of Lausanne meeting from January 18, the delay brings us right up to a period of greatest political pressure and Mr. MacDonald will be continuously engaged with preparations for the coming session in close consultation with his colleagues. In these circumstances we hope that M. Laval will see his way to come to London this week-end for the proposed discussion. He would have a most cordial welcome and we should esteem the opportunity of returning the visit later on. We recognise that the latest formula represents an advance to the point of view which we think should be generally agreed by all Governments concerned, but agreement is impossible without a meeting of Ministers.

2. We are impressed with the desirability, in negotiating a further moratorium involving terms to which Germany must agree, of a discussion in which Germany would be present. Without this the negotiations cannot be fruitful of effective result. In urging our invitation upon M. Laval, you should take the opportunity of indicating to him the considerations in this paragraph.

3. We fully appreciate the skill with which you have secured improvements in the formula. A firm agreement for a June conference would be welcome. But even in its latest form the formula leaves ambiguities which Germany will require to be cleared up, and the range of the future enquiry is for future discussion.

¹ Nos. 46 and 47.

*Sir J. Simon to Sir H. Rumbold (Berlin)*¹

No. 68 [C 675/29/62]

FOREIGN OFFICE, *January 21, 1932*

Sir,

The German Ambassador saw me again this morning and reaffirmed the inability of his Government to agree to a continuation of the Hoover mechanism in connexion with a short further moratorium.

I told him that I had received from you yesterday a full report of the German Government's view, and gathered that I had been able to get my representations before the German Government more quickly through our own Ambassador in Berlin than by conversation with Herr von Neurath here in London. I pointed out that the German Chancellor had, as I understood, indicated to you a fortnight ago, his view that it might be better to adjourn the Reparations Conference for five or six months, until after the French elections, in order to secure a more favourable atmosphere, and I said that, if this course was adopted, it followed that some short extension of the existing moratorium must be arranged in order to give the necessary margin of time for the conference. Hence we had hoped that Germany would be prepared to facilitate the arrangements by agreeing to the continuation of the Hoover mechanism for a short time longer. We were not impressed by the arguments against this course based on references to the Basle Report, for the fact was that the Hoover mechanism was operating at this moment, notwithstanding the serious conditions to which that report drew attention. No point of principle, therefore, was involved. Assuming a conference in June, it was impossible to be sure that satisfactory conclusions could be reached before the existing moratorium expired. The expiration of the Standstill Agreement on the 29th February and the necessity in the interests of Germany, no less than of her private creditors, of finding a solution for the short debts question, made it more necessary than ever to reach agreement now, not only on a new date for the Reparations Conference, but on the terms of a short additional moratorium. Germany's refusal to contemplate a continuance of the Hoover mechanism left us without the necessary means for securing from France an agreement to meet in June with a view to a definitive settlement. While, therefore, I understood the difficulties which faced the German Government, I regretted very much that they had not seen their way to make this contribution.

I am, &c.

JOHN SIMON

¹ A summary of this conversation was telegraphed (telegram No. 30) to Sir H. Rumbold on January 21.

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 22)

No. 3 Saving. Telegraphic [C 678/29/62]

BERLIN, January 21, 1932

My telegram No. 22.¹

As the record of your conversation with Baron Neurath contained in your despatch² of the 19th instant received by air mail last night was fuller than the account of that interview as reported by Baron Neurath and read to me by Herr von Bülow yesterday, I thought it well to read your record to him this morning.

Herr von Bülow said that as the decision of the German Government (please see first paragraph of your despatch under reference) had been communicated to Baron Neurath by telephone, Herr von Bülow had not wished to go into the reasons for their decision, but he said that Baron von Neurath would be made acquainted with those reasons without delay. I said that I had already reported those reasons to you in my telegram No. 20 of January 20.³ Herr von Bülow then explained his idea of the procedure which would be followed at the Lausanne Conference.

German Government consider that the Basle report was the subject for discussion at the Conference. The Germans would declare that, in their view, the conclusions to be drawn from the Basle Report were that Germany could not either now or in the near future pay reparations. (It will be noticed that this seems to be a qualification of the statements made to my French colleague and myself.) The Germans would also suggest that all political payments should be cancelled. They did not, of course, expect the Conference to take any final resolution on the latter point. They expected that each Government would state its attitude and they hoped that the Conference would not terminate without adopting a resolution of a kind likely to tranquilise public opinion and restore confidence.⁴ The adjourned Conference which they hoped would meet not later than June would then effect a definitive settlement of the reparations question and negotiations between the Governments concerned would in the meanwhile be carried on between the two Conferences.

I told him that all this pointed to the necessity for the meeting of the Lausanne Conference. But what was to happen, from a practical point of view, if they could not bring the French to it? He maintained that the French ought to be prepared to attend a Conference at which the Basle report would be the sole basis for discussion. I replied that the situation had obviously changed since the publication of the Reuter telegram and the subsequent statements made by the Chancellor to Wolff. These communications had created a thoroughly bad atmosphere in France.

¹ See No. 39, note 1.

² No. 39.

³ No. 44.

⁴ The following sentence was accidentally omitted here from the telegram and telegraphed subsequently: 'Conference would also have to decide what would happen after the expiry of the Hoover moratorium.'

No. 51

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 22)
No. 4 Saving. Telegraphic [C 679/29/62]

BERLIN, January 21, 1932

I drew the attention of Herr von Bülow this morning to a statement which has appeared in several organs of the German press to the effect that I had asked the Chancellor on Tuesday¹ whether Germany would agree to the prolongation of the Hoover moratorium for a year and that the Chancellor had replied that this proposal was unacceptable. I said that this was only a half truth which conveyed a misleading impression and that I must request that the matter be put right. I reminded him that he had in a previous conversation with me told me that if we had proposed to the German Government a prolongation of the Hoover moratorium for a year without attaching any conditions to such a prolongation, i.e. without expecting any payments from Germany during that period, the Germans would have had to accept the proposal if only as a means of gaining time.

Herr von Bülow said that it had already been decided to make a communication to the press at noon to-day putting the matter in its proper light.

¹ January 19.

No. 52

Sir J. Simon to Sir H. Rumbold (Berlin)
No. 35 Telegraphic [C 634/29/62]

FOREIGN OFFICE, January 22, 1932

Your telegram No. 18.¹

As you know we are seeking to promote an agreed arrangement for the immediate situation with a view to securing a Reparations Conference in June which might provide a permanent solution. Do you think that German Government would help to secure an agreed Conference in June by agreeing now to extension of moratorium for a year or alternatively to December next on existing conditions but on the understanding that these conditions shall be reconsidered at the meeting in June? The effect would be that if conditions were not agreed in June, moratorium would lapse on July 1.

We have not sounded French on this variation which may not be palatable to them, but should first like to have your reaction.

You will appreciate that British policy has undergone no change and is as stated in 3rd paragraph of my despatch² of January 6. Without varying our objective, we are seeking an agreed treatment on the immediate problem in a practical spirit.

¹ Not printed. In this telegram of January 20 Sir H. Rumbold had suggested a formula with regard to the maintenance of the 'Hoover mechanism'.

² No. 7.

No. 53

Sir J. Simon to Lord Tyrrell (Paris)

No. 27 Telegraphic [C 652/29/62]

FOREIGN OFFICE, *January 22, 1932, 6.30 p.m.*

1. In reply to your telephone message¹ this morning, paragraph 2 of my telegram No. 21² is not intended to imply that if M. Laval came to London Dr. Brüning would be invited to come simultaneously. We should receive M. Laval first, but if the proposed arrangement involves terms to which Germany must give her adherence, we wish to point out that before the arrangement is completed Dr. Brüning must be brought into consultation in order to avoid a fresh deadlock.

2. As regards the two paragraphs of the proposed formula in your telegram No. 13,³ our position is as follows:—

Section 1 contains possible ambiguity as to conditions referred to as 'the moratorium now in force'. This ambiguity would best be cleared up in personal discussion and subject to this comment we should be prepared to take paragraph 1 as the basis of that discussion.

As regards Section 2: we should be prepared to accept the proposal for a Conference next June for the purpose of reaching a permanent settlement, but the terms of reference for this conference would need close and careful consultation.

3. If M. Laval is proposing to make any public reference to his proposed visit to London, you should endeavour to ensure that he should not use language implying that we are agreeing to join the French in plans which would lead to a joint representation to America.⁴ (See my private telegram⁵ of January 20.)

4. If M. Laval is able to accept our invitation, we shall be very glad to receive him. Monday or Tuesday of next week would now seem the best date.

¹ In this message Lord Tyrrell said that, if His Majesty's Government wished M. Laval to come to London, they must accept his formula as a basis of discussion, and that M. Laval would find it difficult to come if Dr. Brüning were invited for the same time.

² No. 48.

³ No. 46.

⁴ Lord Tyrrell replied that M. Laval was 'well aware' that there was no question of a joint representation to the United States.

⁵ Not printed.

No. 54

Lord Tyrrell (Paris) to Sir J. Simon (Received January 22, 10.0 p.m.)

Nos. 16 and 17 Telegraphic [C 742/29/62]

PARIS, *January 22, 1932, 8.45 p.m.*

Your telegram No. 21.

2. No reply to invitation to M. Laval can be expected until after debate in the Chamber late to-night.

3. In meantime I have taken careful soundings and my impression is very definite that M. Laval will not be able to go to London. There are two reasons for this. One (and that least important) is his own parliamentary situation which is very delicate in view of excited state of the Chamber and renewed impetus which that has given to intrigues of a powerful opposition. The second and dominant reason is the fact that he knows that he will be unable to concede in London what he could give in Paris and that therefore he considers a visit to London cannot produce the agreement which he and the whole of his Government ardently desire. The Prime Minister will realise the lasting memorial which success of his diplomacy at Chequers in 1924 has left on the minds of the French politicians; and we have to face the hard fact that if M. Laval goes to London he will not be able to do what he could do here and that he will be tied down by very strict instructions.

4. There is another vital element in the situation. M. Laval is convinced (1) that only by a preliminary Anglo-French agreement can an Anglo-French-German agreement and peace in Europe be obtained and (2) that so long as there is doubt about agreement between Paris and London the Germans will always be inclined to exploit any disagreement between us. That is why M. Laval regards with such anxiety assembly of Conference or even meeting with German Ministers in London without preliminary Anglo-French agreement. I hold that from our point of view such an agreement is indispensable as by it alone can we moderate French attitude and obtain concessions from them which we desire.

5. These are main reasons why M. Laval's invitation to Mr. Ramsay MacDonald was of such a pressing and cordial nature; and why there is such deep disappointment at Prime Minister's inability to come.

6. In these circumstances I venture again to ask if it would not be possible for him to come over even for twenty-four hours one day later on in next week. I feel profoundly that critical moment has indeed arrived; and that if Mr. Ramsay MacDonald will come the foundations could be laid and an atmosphere created such as leading to the conclusion of an agreement facilitating German participation.

7. You have asked me twice in the last few weeks what are means by which we can bring pressure to bear on the French. Unhappily my considered view is that we have one supreme means, and that is an appeal to their sentiment. M. Laval and his Government and all leaders of opinion are entreating us to make a step towards them and render it possible for them to moderate their attitude and reach in cooperation with us that agreement with Germany which alone can prevent a further deterioration in the situation. Anything savouring of an attempt to threaten them with isolation only plays into the hands of the nationalists and thereby postpones agreement.

8. I beg that we will not let slip this opportunity to secure Anglo-French agreement which is vital to British interests as only means of establishing a general agreement in Europe.

No. 55

Sir J. Simon to Lord Tyrrell (Paris)
No. 29 Telegraphic: by telephone [C 742/29/62]

FOREIGN OFFICE, *January 23, 1932, 1.15 p.m.*

My telegram No. 28¹ of today's date.

From our point of view the obvious concession which we should have to press for is

(1) That M. Laval should, in the event of German agreement, accept the scheme set forth in paragraph 1 of my telegram to Berlin No. 35.²

(2) Failing German agreement to this scheme, that he should consent to a further moratorium taking the form of the simple *décalage*.³

Do you see any prospect of M. Laval being able to go as far as this after his declaration in the Chamber? At present it is difficult for us to see what other concession short of this is going to unfreeze the present deadlock and render fruitful personal discussion between the two Prime Ministers.

¹ Not printed. In this telegram Sir R. Vansittart informed Lord Tyrrell that the Prime Minister and Secretary of State wished to hear a 'more definite idea of the concessions which [in Lord Tyrrell's view] M. Laval would be better able to make in Paris than in London'.

² No. 52.

³ This telegram crossed No. 57 (telegram No. 20) from Lord Tyrrell. Later on January 23 (in telegram No. 21) Lord Tyrrell gave his opinion that the French Government could not accept this proposal.

No. 56

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 23)
No. 28 Telegraphic [C 758/29/62]

BERLIN, *January 23, 1932*

Your telegram No. 35.¹

From my conversations with Chancellor and Secretary of State since my telegram No. 18² and especially that recorded in my telegram No. 20³ and reactions of public opinion thereto I feel doubtful whether German Government can accept any commitment in respect of period after July 1.

I understand your proposal to amount in fact to declaring that terms of a moratorium shall be fixed in June. The word 'moratorium' is very important. It implies and anticipates continued existence of a liability in respect of which moratorium is granted. German objective like our own is final cancellation, and they certainly hope even if cancellation is not immediately obtained to secure at least complete suspension of all reparations liabilities for an indefinite period. But even if last sentence in paragraph 1 of your telegram under reference could be publicly stated (which I cannot

¹ No. 52.

² See No. 52, note 1.

³ No. 44.

believe French Government would allow) German Chancellor would be subject to most damaging attacks if he accepted principle of moratorium. Public opinion is unanimous that Basle report admitting as it does that Young Plan was based on expectations which have not been fulfilled implies that it must be reconsidered at an early conference and that meanwhile its operation should be suspended and not continued under disguise of a moratorium.

No. 57

Lord Tyrrell (Paris) to Sir J. Simon
No. 20 Telegraphic: by telephone [C 753/29/62]

PARIS, January 23, 1932, 5.0 p.m.

Following is formula suggested by M. Berthelot.

'1. Belgian, British, French, German, Italian and Japanese Governments have agreed that it is desirable to postpone the Lausanne Conference to the month of June in order to make possible the extension of its agenda to the study of the means of remedying in a lasting manner the whole of the economic and financial difficulties which are responsible for or may prolong the world crisis.

'2. The aforesaid Governments are also agreed that the conclusions of the Basle committee would not justify the application to Germany, in the year beginning July 1st, of a reparations régime more onerous than that which is now in force.'

No. 58

Sir J. Simon to Lord Tyrrell (Paris)
No. 30 Telegraphic [C 754/29/62]

FOREIGN OFFICE, January 24, 1932, 1.15 a.m.

Following from Sir R. Vansittart:

Your telegram No. 21.¹

I have not been able to consult Prime Minister or Secretary of State at this late hour but following represents my own view of difficulties with which we are now confronted.

So long as we were searching for a form of words which would exclude implication that United States co-operation in moratorium was necessary formula in your telegram No. 20² would have represented considerable advance.

But we have I think got beyond that now since our repeated efforts to get Germany to accept continuance of present moratorium have definitely

¹ See No. 55, note 3.

² No. 57.

failed and Berlin telegram No. 28³ clearly shows that Brüning having made public his refusal has now reached a point where as it seems to me he evidently prefers running the risk of Germany finding herself on July 1 in technical default to acceptance of any form of moratorium implying subsequent re-entry into force of Young Plan. In these circumstances the most he is likely as at present minded to be able to accept without stultifying himself is a declaration of unconditional and indefinite *décalage*. If this diagnosis is correct I fear Berthelot's new formula does not really affect much less solve the results of the present *impasse*. These are however only my provisional views, and the whole situation will be reviewed on Sunday⁴ night with the Prime Minister, the Secretary of State and the Chancellor.

³ No. 56. On the night of January 23-4 Sir H. Rumbold telegraphed (No. 30) that in his opinion the German Government would not accept M. Berthelot's formula.

⁴ January 24.

No. 59

Lord Tyrrell (Paris) to Sir J. Simon (Received January 24, 8.30 p.m.)

No. 22 Telegraphic¹ [C 755/29/62]

PARIS, January 24, 1932¹

Your telegram No. 30.²

M. Berthelot tells me privately that he will be willing to submit to President of Council on his return to Paris in the morning a modified formula on lines of that contained in my immediately following telegram. Section one will perhaps meet German objection to admittance of desire to postpone conference. Section two makes it unnecessary for German Government to put its signature to any expression of opinion whatever respecting next year's payments or moratorium. President of Council's opinion on formula will be telephoned before noon tomorrow.

¹ This telegram appears to have been sent by telephone, and the hour of despatch is not recorded.

² No. 58.

No. 60

Lord Tyrrell (Paris) to Sir John Simon

No. 23 Telegraphic: by telephone [C 756/29/62]

PARIS, January 24, 1932, 8.0 p.m.

'1. Belgian, British, French, German, Italian and Japanese Governments, having taken note of the conclusions of the Basle report, and having discussed the possibility of an immediate meeting of the Lausanne conference, have agreed that it is necessary to postpone it to the month of June in the hope of finding a lasting settlement of the whole of the economic and financial difficulties which are responsible for, and may prolong, the world crisis.

'2. The Creditor Governments, in order to give time for the negotiation of such a settlement and while reserving their rights under the existing agreements, are agreed that the conclusions of the Basle Committee would not justify the application to Germany in the year beginning July 1st of a reparations régime more onerous than that which is now in force.'

No. 61

Lord Tyrrell (Paris) to Sir J. Simon (Received January 24)

No. 24 Telegraphic: by telephone [C 757/29/62]

PARIS, January 24, 1932, 8.30 p.m.

My immediately preceding telegram.¹

M. Berthelot suggests that if both Governments accept formula, Prime Ministers meet in Paris on Tuesday.² M. Laval earnestly hopes that Prime Minister will help him by coming here where in the present state of French opinion he can concede more.

2. Even if you could get him to London I doubt if gamble (*sic*:? game) would be worth the candle.

3. M. Berthelot suggests other Governments' acceptance of formula be obtained through diplomatic channels.

¹ No. 60.

² January 26.

No. 62

Sir J. Simon to Lord Tyrrell (Paris)

No. 31 Telegraphic [C 757/29/62]

FOREIGN OFFICE, January 25, 1932, 12.30 a.m.

Your telegrams Nos. 22, 23 and 24.¹

My immediately following telegram contains formula which represents a final endeavour on our part to reach a solution of present *impasse*.

Prime Minister has unavoidable engagements in Scotland on Thursday and must leave here again on Wednesday night. If however new formula is acceptable to French Government he would make a great effort and come over by 4 p.m. train on Monday.² He must however be assured before finally deciding on journey that formula is in all essentials acceptable to French Government. Formula embodies changes which we regard as indispensable and we could not agree to modification of substance though ready to discuss purely verbal alterations.

¹ Nos. 59-61.

² January 25.

No. 63

Sir J. Simon to Lord Tyrrell (Paris)

No. 32 Telegraphic [C 757/29/62]

FOREIGN OFFICE, *January 25, 1932, 12.55 a.m.*

'Belgian, British, French, German, Italian and Japanese Governments having taken note of the conclusions of the Basle report have agreed that the Lausanne Conference shall take place in the month of May or June for the purpose of finding a lasting settlement of the financial and economic questions referred to in the Report.

'2. The Creditor Governments while reserving their rights under the existing agreements and without at present seeking to make precise proposals for the treatment that should be applied to the period after July 1st next are agreed that the conclusions of the Basle Committee would not justify Germany being called upon to make any effective reparation payments during the year beginning July 1st.'

No. 64

Lord Tyrrell (Paris) to Sir J. Simon

Unnumbered. Telegraphic: by telephone [C 766/29/62]

PARIS, *January 25, 1932, 12.20 p.m.*

Your telegrams Nos. 31 and 32.¹

I saw M. Laval this morning.

Following are French difficulties to acceptance of the formula telephoned last night:

1. They cannot mention the month of May because it is quite possible that the elections will only be held then.

2. They cannot agree to anything which would suggest that the June Conference would discuss the reparations question alone; but they are perfectly prepared to discuss at that Conference reparations as part of a whole constituted by the other financial and economic questions.

3. They suggest leaving out the reference to next year's moratorium because in any case the Conference will meet before July 1 and because the latest developments of the formula suggest that France would be agreeing to claim nothing from Germany even if America insisted on payments from her; and M. Laval says if they did that he could not maintain his position in the Chamber.

They therefore propose the following alternatives:

'1. British and French Governments, after having taken note of Basle report are agreed on the necessity of the postponement until June of the Lausanne Conference in order to make possible the study during this period

¹ Nos. 62-3.

and to facilitate the adoption by the Conference of the measures necessary to remedy the whole of the economic and financial difficulties which are responsible for, and may result in, prolonging the world crisis and notably those mentioned in the Basle report.

'2. The two Governments are also agreed to recommend to the other Governments interested the assembly of the Conference; and they will agree with the latter through the diplomatic channel on the procedure to be followed.'

When I insisted on a reference to the year beginning July 1932 this was the best M. Laval could accept.

'The two Governments are also agreed to recommend the Creditor Governments, while reserving their rights under the existing agreement and without prejudice to the decisions of the Conference, to admit that the conclusions of the Basle Committee would justify the prolongation for one year from July 1 next of the moratorium now in force.'

No. 65

Sir J. Simon to Lord Tyrrell (Paris)

Unnumbered. Telegraphic: by telephone (C 766/29/62]

FOREIGN OFFICE, *January 25, 1932, 2.15 p.m.*

The Prime Minister regrets very much that the formula which we proposed last night should be regarded as unacceptable. There is so much divergence between this formula and the latest French proposal just transmitted to us that the Prime Minister could not usefully cross this afternoon as proposed, especially as, in any event, he could only remain a few hours. We are of course studying the whole matter closely and will communicate with you again shortly.

Repeated to Berlin.

No. 66

Sir J. Simon to Lord Tyrrell (Paris)

No. 34 Telegraphic [C 766/29/62]

FOREIGN OFFICE, *January 27, 1932, 3.35 p.m.*

My telegram of the afternoon of January 25,¹ unnumbered, by telephone.

We have been studying closely the various formulae proposed, and greatly regret that for the following reasons the latest French version would bring us no nearer to a solution of the fundamental issue:

1. This version returns to a formula for the Conference in June so wide that it involves the risk of endless delay and gives no assurance that a definite

¹ No. 65.

settlement will be reached about reparations such as is required for maintenance of financial situation. The formula also aims at bringing the United States Government into the Conference—an object which we know must fail. Such procedure would involve us in the policy of a united front against the United States, into which we do not wish to be drawn.

The fixing of June for the Conference instead of May would of course offer no difficulties.

2. The formula for the Conference seeks to substitute a declaration by our two Governments for an agreement between all six Creditor Governments. In this connexion please see paragraph 1 of my telegram No. 27² of January 22.

3. The omission of all provision for the temporary régime after July 1 seems to us to be most dangerous, but from your telegram No. 25³ since received (with the analysis in which we agree) I realise that the French (probably also the Germans but for different reasons) are prepared to face a state of technical default by Germany on July 1, if indeed they do not actually prefer it to any definite commitments as to a provisional régime. We, on the contrary, consider that the confidence and prosperity of Europe will be best promoted at this stage and pending a final settlement by assuring public opinion forthwith that there shall be no technical default by Germany during the next twelve months, and that Germany's treaty position will be duly regularised as from July 1.

Moreover, I should point out, for your confidential information, that we have a special interest in obtaining assurances as to position after July 1 by reason of the short term credits due to the London market. The new Stillstand Agreement is contingent, *inter alia*, on renewal of Central Bank credits, which Bank of France will presumably attempt to withdraw in the event of a German default on reparations (see your despatch No. 53⁴ of January 12). Also the Bills maturing after April 1 next will, if renewed, fall due again *after* July 1 and there is considerable doubt how far the market will be prepared to turn over such Bills without any assurances that Germany's inability to pay reparations will be satisfactorily regularised before July 1.

It is true that M. Laval unwillingly offered you yet another formula for a moratorium, but this is even less satisfactory than that previously put forward, inasmuch as it definitely reiterates the proposal to accompany the year's further suspension by a prolongation of the present mechanism, which we have satisfied ourselves Germany will not accept and which, moreover, cannot be enforced without Germany's consent. We have, as you know,

² No. 53.

³ Not printed. In this telegram of January 25 Lord Tyrrell summed up the position as follows: (1) France would reopen the Young settlement 'only in conjunction with the settlement of financial and economic questions (including, obviously, debts)'. (2) France would not grant a further moratorium to Germany 'so long as she (France) is herself unprotected *vis-à-vis* America'.

⁴ Not printed.

in order to contribute all we can to agreement already and repeatedly pressed the German Government to accept the present mechanism, but without avail. We are obviously unable to do more in this direction, more especially as the Italian Government have declined to support us in this pressure on Germany. Nevertheless, bearing in mind French susceptibilities, we so drafted paragraph 2 of the formula in my telegram No. 32⁵ as to leave the question of mechanism open in case the French Government wished to raise it again at a more opportune moment (cf. 'while reserving their rights under existing agreements' and the word 'effective' before the words 'reparation payments').

I am bound to express our fear that the position now reached shows that agreement on a formula is not likely to be obtained, more especially in view of the ulterior motives of the French Government as indicated in your telegram No. 25. I shall, however, be glad to have any observations which you or the French Government still think it useful to make, and I need hardly say that although the visit of the Prime Minister to Paris has been rendered impossible, our invitation to M. Laval to visit London of course still holds good, if he thinks that it will serve any useful purpose.

Meanwhile M. Laval will appreciate that our own time of Parliamentary pressure is just approaching, and, as I indicated in my telegram No. 16,⁶ paragraph 3, we now have to consider the form which our statement of policy will have to take in the House of Commons when it meets on February 2.

⁵ No. 63.

⁶ No. 32.

No. 67

Sir H. Rumbold (Berlin) to Sir J. Simon (Received January 29)

No. 72 [C 903/29/62]

Berlin, January 27, 1932

Sir,

The difficulties attending the meeting of a Reparations Conference and the circumstances leading up to those difficulties have naturally caused a set-back in Franco-German relations as seen from this angle. I learn from a good source that the deterioration in those relations is a source of anxiety to the German Foreign Office. My French colleague is equally concerned, for he confirms the fact that Dr. Brüning had succeeded in establishing excellent personal relations with M. Laval. The latter, in fact, in talking to M. François-Poncet described Dr. Brüning as 'un homme d'or'. This fund of confidence between the two men now seemed to have been dissipated.

2. The Germans take their stand on the statement made by M. Laval that a conference of Governments would follow the submission of the report of the experts appointed under the Young plan, and they claim that the report of those experts should be the sole object of discussion at that conference. They

have, however, apparently failed to realise that the unfortunate publication in an incomplete form and divorced from its context of one of the statements about the attitude of Germany towards reparations, made to me by the Chancellor on the 8th instant, which led to Dr. Brüning's subsequent explanation of it to Wolff's agency the next day, has greatly modified the situation. I would observe that after the first gasp of astonishment over the Reuter telegram, all Germans whom I met of every shade of opinion expressed satisfaction that at last the Chancellor had stated publicly what was a view common to the whole nation, namely, that Germany could no longer pay reparations. But the German Government have never gone so far as to denounce the Young plan, although I notice that the German Ambassador in Rome recently told Signor Grandi that 'Germany would never pay any more reparations in the future'. This is going further, I think, than any German official has yet gone.

3. Irritation with and resentment against France have been increased by the apparent determination of the French Government to stick to the Young plan and not to concede an unconditional moratorium. Germans think that the French are incapable of drawing the obvious conclusions from the Basle report, and, in a recent conversation with me, Herr von Bülow said, 'You may ruin us, but you cannot get blood out of a stone'. Whilst the German Government are placing considerable reliance on a swing to the Left resulting from the French elections, they apparently fail to take into account the difficulties of the French Prime Minister with the Chamber composed as it is at present. As regards the United States, the Chancellor has expressed the confident belief to me that the progress of the economic crisis would, in a few months, bring both the Americans and the French to a sense of realities. Publicly, however, the Germans have never admitted any connexion between reparations and war debts, although, of course, they realise that there must necessarily be a direct connexion between the two. This introduces a further complication into the situation. It may be that the German Government are to a certain extent encouraged in their unyielding attitude by the knowledge that the British and Italian Governments are agreed in considering that a complete cancellation of reparations and war debts is a main pre-condition of an improvement in the economic situation in the world. They will certainly exploit the conclusions of the Basle report and of the Standstill Agreement just concluded to the utmost to suit their thesis. However that may be, the Chancellor has been somewhat prematurely obliged to take up an uncompromising stand, in which he has the backing of the whole nation and from which it will be difficult to retreat.

I have, &c.

HORACE RUMBOLD

*Sir J. Simon to Sir H. Rumbold (Berlin)**No. 107 [C 967/29/62]*FOREIGN OFFICE, *January 28, 1932*

Sir,

In the course of our conversation this morning Herr von Neurath said that the German Government had been following with sympathy the efforts we had been making to bring about the meeting of the Reparations Conference. They still wanted a conference to be held, though they realised that it would not be possible to come to final conclusions at it. I took the opportunity of ascertaining from the Ambassador specifically that his Government would like a conference in June and would favour a period of suspension of reparations from the 1st July next of 'six to nine' months or perhaps a year. The Ambassador emphasised that Dr. Brüning could not contemplate the attachment of any condition such as the continuance of the Hoover mechanism. Germany, he said, had more than once entered into engagements about reparations which in the event she could not fulfil and he did not want this to happen again.

I told the Ambassador that I took note of his statement that Germany really wished for a Reparations Conference and was averse to lying by and defaulting on the 1st July without a new arrangement. It had seemed to me that the French Government might find some advantages in the *fait accompli* of defaulting, not only in view of their difficulty in making any concession, but in relation to their liabilities of debt. We in Britain certainly desired an arrangement to be reached rather than that default should occur without it. There would be little difficulty in fixing a conference for June if we could define the scope of it, but the French were disposed to press for wide terms of reference, which would not only make the conference a very lengthy affair, but might drag in questions about the American debt, which we thought should be treated separately.

Herr von Neurath said the German Government's own opinion was that it would be hopeless to endeavour to mix up the subjects of debts and reparations.

I derived the impression of our interview as a whole that the Ambassador's visit was rather in the nature of an exploratory operation; he had no concrete proposal to make or information to impart, except to indicate the hope that we might get in touch on the subject of reparations at Geneva.

I am, &c.

JOHN SIMON

Lord Tyrrell (Paris) to Sir J. Simon
No. 26 Telegraphic: by telephone [C 949/29/62]

PARIS, January 29, 1932, 4.15 p.m.

Part I.¹

I gave M. Berthelot yesterday afternoon a summary of reasons for which His Majesty's Government in the United Kingdom are unable to accept the latest French version of formula, as set out in paragraphs 1 to 3 of your telegram No. 34.² I did not disguise from him your view with which I am in complete agreement that difference of positions of the two Governments is one which it is very difficult for any formula to bridge. I spoke to him also in the sense of paragraphs 4 and 5 of your telegram.

2. After a long discussion which lasted all through the evening M. Berthelot admitted in the light of the French position as stated in my telegram No. 25³ the difference between us at the moment really resolves itself into attitude which we should maintain towards and manner in which we should approach America. French Government wished to make it clear to its public opinion that it was not contemplating a new reparations settlement save in conjunction with debts or a new reparations moratorium unless safeguarded in respect of payments to America. British Government wished to present America with a complete reparations settlement and leave it to her to treat Europe with magnanimity. M. Berthelot also stated that ultimate end of both Governments was, it might be supposed, the same, as neither Government could presumably contemplate indefinite continuance of debt payments in the absence of all reparations.

3. In these circumstances M. Berthelot agreed to submit a revised formula to President of the Council. This was considered at a meeting of Ministers concerned this morning, and after what was I understand a difficult discussion, formula was accepted in form contained in my telegram No. 28.⁴

4. Following are my comments and those of French Government on this formula:

(1) There is a misunderstanding as regards paragraph 1, section 2, of your telegram No. 34. French Government recognises that agreement of all six Governments is necessary to section 1 of formula, and of five Creditor Governments to section 2, agreement of German Government to latter section being deliberately omitted in order to facilitate the matter for the latter. Declaration by our two Governments was only suggested as natural conclusion to Prime Ministers' meeting; and it was always intended to embody it in general agreement which it was thought easiest to reach by diplomatic channel; but if you prefer reference to some other channel French Government is ready to do its best to meet your wishes. In any case it is clearly understood that ultimate agreement to section 1 of formula must be given by all six Governments and to section 2 by 5 Creditor Governments.

¹ Part II of this telegram was sent as a separate telegram No. 27.

² No. 66.

³ Not printed. See No. 66, note 3.

⁴ No. 71.

(2) Note insertion of the phrase 'in a lasting manner' designed to meet one of the objections in paragraph 1, section (1) of your telegram No. 34.

(3) French Government maintains no undue delay will be involved by inclusion in agenda of 'whole of financial and economic difficulties' as all these questions can be studied and prepared in advance of Conference; in any case object of insertion of phrase is not to delay a settlement but to 'mask' reopening of reparations question from French opinion.

(4) In view of your objections French Government will not press for issue of invitation to United States Government to attend Conference though it thinks it would only be wise to ascertain informally later wishes of that Government. French Government disclaims also in matter of widening of agenda all intention of drawing you into 'united front' against America. Wider agenda is, as stated above, intended to 'mask' reopening of reparations question from French public opinion; and also to show the world, including the United States, that French Government realizes necessity of common international action in the present crisis. French Government thinks United States can only view this fact with appreciation, though it agrees that it is most unlikely that the latter will be represented at Conference; in these circumstances we shall be free if we wish to urge at Conference our point of view as to attitude to be observed to America, and French Government will be free to submit its thesis, but neither Power nor any other Power represented at the Conference will in any sense be committed in advance or, much less, be obliged at the conference to join 'united front'.

(5) The new formula meets your wish respecting the necessity of reference to 1932 moratorium; as regards the wording of reference, French Government is ready to return to *form* of statement contained in your telegram No. 32;⁵ but as French Government objects to the words 'effective payments' which are differently interpreted by the two Governments (French claiming that payment of unconditional annuity under Hoover mechanism is an 'effective payment' and we maintaining the reverse) the words 'a reparation régime more onerous than that now in force' are substituted.

(6) You will note reservation made with regard to 'rights and obligations' in section 2 of formula: 'obligations' refer to war debts but no position is taken up, point being simply held over.

⁵ No. 63.

No. 70

Lord Tyrrell (Paris) to Sir J. Simon

No. 27 Telegraphic: by telephone [C 950/29/62]

Part II.

PARIS, January 29, 1932, 6.15 p.m.

5. In light of these explanations, revised formula seems to me to represent at last a real advance; and I hope that you will take it as such. Following

considerations seem to me to point to advisability of an agreement with French if it can possibly be reached.

6. Our aims as defined in your telegram are:

(1) to secure immediately a moratorium for 1932 in order to reassure the market;

(2) to obtain with all possible speed at a general conference in June a lasting reparations settlement which (despite indication in conclusions of Basle report) you hold would be delayed by its discussion in relation to general financial and economic questions including debts;

(3) to forestall an invitation to America to attend such a conference as certain to be refused, and, if accepted, as likely to draw us into a common front against America, the implication being that we shall obtain better terms if we negotiate by ourselves.

7. French Government's position, as defined in my telegram No. 25, is a refusal (1) to reopen Young settlement save in conjunction with and as it is modified by settlement of general financial and economic questions, and (2) to grant a further moratorium to Germany so long as France is herself unprotected *vis-à-vis* America. French Government is bound to this position by a series of declarations and parliamentary resolutions which date from summer of 1929; and this fact makes it essential for it to be very careful to conceal from its public opinion the significance of any advance which it may make towards us on points (1) and (2) of our aims.

8. Unless we take account of this, we shall put French Government in position of great difficulty which will render continuance of co-operation impossible. It is difficult to see how the attainment of *any* of our aims will be facilitated by this result. All hope of reassuring the market by the immediate grant of a moratorium for 1932 would thereby automatically disappear; and my own view is that any such abandonment would almost certainly be immediately followed by insistence on conditions which would imply necessity of liquidation of Bank of France credits to Reichsbank. Such conditions would be demanded by public opinion here in view of certainty of German reparation default in 1932. I note that liquidation of these credits would constitute grave danger to 'still-stand' agreement¹, breakdown of which, once reparation default became certain, would certainly not be regretted here, implying, as it would common fate for private and reparation creditors.

9. By abandonment of co-operation with France the speedy conclusion of a lasting reparation settlement, the second of our aims, would be rendered more remote. Moreover are we certain, in such circumstances, of obtaining necessary relief from America? A German default in 1932 would have taken place. This would have entailed a French default to America and ourselves, and therefore no French or German payments. Could we count on the complete waiver of our own debt? If we failed to obtain that we should be faced with a choice between default and acceptance of a worse position than the other debtor Powers. In addition we should be faced with all the political

¹ For this agreement see Appendix II of Vol. II in this series.

disadvantages of *general* European default, i.e., a great diminution in the respect for contracts and treaties and a corresponding return to the belief in the doctrine of force. Both France and Germany would tend to take the bit between their teeth. We should be in a position to exercise no control over France and little over Germany. It is difficult to conceive that the general situation could do otherwise than rapidly deteriorate.

10. These are the dangers which I foresee if all co-operation came to an end and we and the French were each to go our own way.

No. 71

Lord Tyrrell (Paris) to Sir J. Simon

No. 28 Telegraphic: by telephone [C 951/29/62]

PARIS, January 29, 1932, 5.10 p.m.

Following is formula.

'British and French Governments, after having taken note of Basle experts' report, are agreed to recommend to the participating Governments the adjournment of the Lausanne conference to the month of June. This adjournment seems to them to be necessary in order to enable the conference to examine properly the measures necessary to provide a lasting remedy for (à remédier d'une manière durable) the whole of the economic and financial difficulties which are responsible for and which may result in prolonging the world crisis including those mentioned by the Basle experts.

'2. The British and French Governments are also agreed that the Creditor Governments, immediately and without prejudice to the decisions of the conference and while making all reserves with regard to their rights and obligations under the existing intergovernmental agreements, should recognise that the conclusions of the experts' report would not justify the application to Germany in the year beginning July 1, 1932, of a reparations régime more onerous than that which is now in force.'

No. 72

Lord Tyrrell (Paris) to Sir J. Simon

No. 29 Telegraphic: by telephone¹ [C 952/29/62]

PARIS, January 29, 1932

My telegrams Nos. 26 and 28.²

If, as he earnestly trusts, formula in light of explanations given is now acceptable to His Majesty's Government in United Kingdom, M. Laval is most anxious to meet Prime Minister during week-end. He asks me to say

¹ This message appears to have been received during the night of January 29-30.

² Nos. 69 and 71.

that it would greatly aid him in difficult position in which he is placed *vis-à-vis* the Chamber and public opinion, if Mr. MacDonald would make great effort and come to Paris on Saturday afternoon, returning if he wishes on Sunday evening. Considerations advanced in my earlier telegrams as regards expediency of Paris as place of meeting still apply.

No. 73

Sir J. Simon to Lord Tyrrell (Paris)

No. 40 Telegraphic [C 952/29/62]

FOREIGN OFFICE, *January 30, 1932, 11.15 a.m.*

Your telegram No. 29.¹

The Prime Minister is in the north of England and does not return to London till late to-night. Thus it would be impossible for him to come to Paris to-day. You may rest assured that the new formula will be very carefully studied but it is not probable that we shall be able to come to any decision over the week-end.

¹ No. 72.

No. 74

Sir H. Rumbold (Berlin) to Sir J. Simon (Received February 6, 1932)

No. 90 [C 1113/29/62]

BERLIN, *February 2, 1932*

Sir,

In the course of a visit which I paid to the Secretary of State to-day I enquired whether there was any progress to report from the German side as regards the proposed Reparations Conference.

2. Herr von Bülow replied that the German Representatives in London and Paris had been instructed to point out to the British and French Governments the desirability of an early meeting of the proposed Lausanne Conference, if only with a view to reassuring public opinion that something was being done. In fact his remarks on this subject were practically identical with the considerations I ventured to submit in my telegram No. 30¹ of the 23rd ultimo. You had replied that practical difficulties lay in the way of the meeting of the Conference at the present moment and M. Laval had not been encouraging in his remarks to Herr von Hoesch. M. Laval had pointed out that, if necessary, there could be a succession of moratoria in the case of Germany, but the German Government absolutely refused to entertain the idea of a piling up of commitments for the future.

3. The Secretary of State went on to say that the German Government were now considering whether they would draw up a memorandum setting out the economic and financial situation of Germany by the light of the recent

¹ See No. 58, note 3.

Basle Report. This memorandum would probably embody the declaration which the Chancellor would have made had the proposed Lausanne Conference met. It would be communicated to the Creditor Governments and to the United States Government, but the German Government had not yet definitely made up their mind on the point.

4. Herr von Bülow then said that he wished to speak quite personally and that his remarks represented his own opinion. In referring to the Lausanne Conference he meant the Conference which should have met on January 25. It might be that the Conference which was to meet in June might be held at some place other than Lausanne. The French Chamber was obliged to meet on the 1st June and he reckoned that the French Government would need a fortnight to settle down and obtain a vote of confidence in the Chamber. The Conference, therefore, could not meet before the middle of June and the American Congress would meanwhile have adjourned early in that month.

5. Some arrangement would have to be made after the expiry of the Hoover year. The German Government certainly did not wish to default. He was under the impression that France would have to make certain payments shortly after the Hoover year was up. If she did not see her way to making such payments, she would have to give three months notice beforehand. He would wish to avoid a situation arising by which France might, in advance, give her creditor an assignment on Germany in respect of these sums, and it was therefore a matter of some urgency that Germany should state her case and explain her position as soon as possible.

6. Herr von Bülow informed me that it had been the intention of the Chancellor to leave for Geneva on the 6th instant in the hope that he would meet Mr. MacDonald there on the 8th instant. But he had just seen a report in the evening press that Mr. MacDonald would have to undergo an operation to his left eye and he therefore assumed that the Prime Minister would be unable to be at Geneva on the date mentioned.

I have, &c.

HORACE RUMBOLD

No. 75

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 46 Telegraphic [C 1113/29/62]

FOREIGN OFFICE, *February 5, 1932*

Your despatch No. 90¹ of February 2nd. (German attitude towards proposed reparations conference.)

Following from Sir R. Vansittart:—

I am disturbed by the suggestion that a memorandum should be elaborated setting out the economic and financial situation of Germany in the light of the Basle Report, and communicated to the Creditor Governments and the United States Government at the present time. We consider it most

¹ No. 74.

important that everything shall be done both in the political and financial spheres to keep the international atmosphere as tranquil as possible until the eventual conference meets. Contents of proposed memorandum can scarcely be other than such as to irritate French Government at this stage and thus to render more remote prospects of agreement settlement to which we gather German Government attach as much importance as we do ourselves. French will certainly wish to reply and a barren controversy will thus be engaged. Moreover once views are committed to writing and circulated it will be more difficult for Germans to withdraw, particularly as a fresh 'leakage' will presumably occur and result in publication of memorandum, leading in turn to press polemics and hardening of opinion on both sides. You will remember that you yourself suggested that Governments should abstain from making statements as to their position (see your telegram No. 30 of January 23).

Please urge on German Government necessity for discretion in this matter. Meanwhile the Chancellor will have opportunity of stating his views orally to British and French Ministers at Geneva whither he goes, I understand, tomorrow. Secretary of State arrives Geneva tomorrow.

For your own information, policy to be adopted *vis-à-vis* French Government is set forth in memorandum² which goes to you by bag tomorrow.

² Not printed. The memorandum summarized the instructions to Lord Tyrrell printed in No. 76.

No. 76

Sir J. Simon to Lord Tyrrell (Paris)

No. 330 [C 1089/29/62]

FOREIGN OFFICE, *February 6, 1932*

My Lord,

In your telegrams Nos. 26, 27 and 29¹ your Lordship described the latest phase of your negotiations with the French Government, with a view to secure agreement on the terms (1) of a joint formula to be adopted by Germany and the chief Creditor Powers fixing the date, scope and aims of the eventual inter-governmental conference on reparations; and (2) of a formula to be adopted by the Creditor Powers providing for the situation which will arise on the expiry of the Hoover moratorium on June 30 next. In your telegram No. 28² of the same date you communicated to me the text of 'revised' formulæ of that character which had resulted from your conversations with the French Ministers.

2. These formulæ, and the explanations which accompanied them, were at once submitted to the most careful consideration, the results of which were embodied in the memorandum agreed upon in consultation between my Department and the Treasury, a copy of which is transmitted herewith for your information.³

3. A meeting, at which you were present⁴, was held at the Foreign Office on February 3, when the situation was reviewed at length in the light of the

¹ Nos. 69, 70, and 72.

² No. 71.

³ Not printed.

⁴ Lord Tyrrell was recalled to London for consultations during February 2-7.

memorandum, and the conclusions reached by the compilers of that document received the general assent of those present. Those conclusions were subsequently approved by me and by the Chancellor of the Exchequer,⁵ subject to certain observations, the gist of which is given below.

4. The policy of His Majesty's Government with regard to this matter can now, therefore, be stated, and I request that you will be guided by the following considerations in resuming without delay your negotiations with the French in this connexion:—

5. As you are aware, the formulæ transmitted in your telegram No. 28 were judged to represent no alteration in essentials from the formulæ already rejected by His Majesty's Government. The first formula contains no definite assurance that reparations will be settled at the projected conference, and the second maintains, as regards the situation which will arise after June 30 next, the wording relative to the application to Germany of 'a régime not more onerous than that now in force'. For these reasons, which are elaborated in the memorandum enclosed herein, these formulæ could not be accepted.

6. As you are aware, His Majesty's Government attached great importance to obtaining an assurance from the principal Creditor Governments that the financial difficulties of Germany should not be accentuated by the possibility that reparation payments might be again demanded at the expiry of the Hoover moratorium. A definite assurance on this point would, in their view, have contributed considerably to restoring general confidence, and would have been of special interest to this country by reason of the large amount of outstanding short-term credits due to the London market. It appears, however, that any assurance which, in present political conditions, the French Government could accept would be very far from satisfying the expectations of public opinion in this country, and might, indeed, by provoking counter-statements on the part of the German Government, tend to disturb rather than to reassure sentiment. In these circumstances, it has now been decided to abandon any further attempt to secure an immediate settlement as regards the provision to be made for the situation which will arise after the termination of the Hoover moratorium year, and to postpone further discussion on that issue until the conference meets, or at least until after the Prussian and French elections have been held, when it may be hoped that circumstances will be more favourable than they are now for an agreement on this point.

7. All, therefore, that can usefully be done is to secure an immediate agreement that the inter-governmental conference shall be held in June and that its terms of reference shall be suitably defined so as to secure a lasting settlement of the reparations question. As you have explained, the French Government desire to wrap up this object by using a very vague and general reference, such as 'the whole of the economic and financial conditions which are responsible for and which may result in prolonging the world crisis'. His Majesty's Government would much have preferred to have avoided such wide terms, which appear to them to be at once too ambitious and too

⁵ Mr. Neville Chamberlain.

indefinite. They are far from clear that any useful purpose would be served by giving the conference so wide a scope, but in deference to the wishes of the French Government they are prepared to retain substantially the words proposed by the French Government, provided that the formula is transposed so as to read 'the object of the conference will be to agree on a lasting settlement of the questions raised in the report of the Basle experts and on the measures necessary to solve the other economic and financial difficulties which are responsible for the present world crisis'.

8. You are authorized to communicate this formula to the French Government as an attempt on the part of His Majesty's Government to meet their point of view. But you should at the same time make it clear that the wording quoted above represents the considered decision of His Majesty's Government, that it constitutes a definite concession, and that no further amendment to it can be accepted.

9. If the French Government are able to accept a formula in these terms, the next step will be to submit it to, and for it to be accepted by, the other Governments concerned, and in particular by the German Government. No question of publication can, of course, arise until the consent of all parties have been obtained, and it is clearly undesirable in the meanwhile to allow the impression to arise that the French Government and His Majesty's Government are taking upon themselves the responsibility of settling this question.

10. It has furthermore been decided that an understanding should, if possible, be reached simultaneously to the effect that everything shall be done, both in the political and in the financial spheres, to keep the international atmosphere as tranquil as possible until the conference meets.

11. It will be clear to you that the maintenance of such tranquillity during the coming months may be endangered by various causes. For instance, the French Government or the French press may raise prematurely the question of the legal default by Germany on June 30, and thereby undermine public confidence. I leave it to your discretion, if you see any danger of this, to urge the French Government to prevent any such discussion, using, if necessary, the arguments set forth in the last sentence⁶ of paragraph 12 of the memorandum of February 2.

12. Another possible threat to tranquillity is the uncertainty which obtains at present as to whether the Bank of France will withdraw their credit from the Reichsbank, but it may be hoped that an agreement on the terms of reference of the conference on the lines indicated in paragraph 7 above will

⁶ In this sentence it was pointed out that it might be advisable to warn the French Government that His Majesty's Government recognized the right of the German Government to object to any continuance of the Hoover mechanism, and considered that, in view of the Basle report, Germany was entitled to an unconditional suspension of payments after July 1: if, therefore, the question were left unsettled, His Majesty's Government could not be expected to join in denouncing a German default in July, but would have to declare, if necessary, that the German Government had been forced by circumstances beyond their control to suspend payments and could not justifiably be accused (in terms of The Hague Agreement) of 'having committed acts revealing their determination to destroy the Young plan'.

enable the Bank of France to maintain their co-operation with the other central banks.

13. There is a third source of danger to the maintenance of the desired tranquillity in the strong feeling created in this country by the imposition of the French surtax and the indignation occasioned by the refusal of the French to withdraw it. It is most desirable, in the interests of tranquillity, that this question should not be allowed to embitter relations between the two countries during the coming months, since an open quarrel on this subject, although it has, of course, no direct connexion with the question of reparations, is bound to have repercussions on the general relations between the two countries and render co-operation in other fields more difficult. You should impress upon the French Government that His Majesty's Government have gone very far to meet them over the reparations question in order to maintain the friendly relations between the two countries, but that the continuance of this policy is made very difficult by the discrimination exercised by them against British trade. You should point out that, while His Majesty's Government have accordingly been forced to obtain powers to deal with such discrimination, they have at the same time indicated their desire to proceed in every case on a basis of reciprocity. The exact action to be taken by His Majesty's Government in this connexion now, therefore, depends on the action of the French authorities, who, they confidently hope, will shortly submit satisfactory proposals for eliminating this cause of friction between the two countries.

14. In conclusion, it must be borne in mind that the policy of His Majesty's Government is directed to securing an agreement between the Governments concerned on the following lines: First, a permanent settlement of reparations should be reached on the basis of the cancellation of all outstanding claims, without reference to war debts; and thereafter, as a natural sequel, the question of those debts should in its turn form the subject of separate negotiations. Provided the French Government are able to accept this principle, the points of difference between them and His Majesty's Government are reduced to the question of the tactics best suited to attain this aim.

I am, &c.

JOHN SIMON

No. 77

From Sir H. Rumbold (Berlin) to Sir J. Simon¹ (Received February 6, 9.15 p.m.)²

No. 43 Telegraphic [C 1133/29/62]

BERLIN, February 6, 1932

Addressed to Geneva No. 1

Foreign Office telegram No. 46³ acted on.

Head of English section of Ministry of Foreign Affairs whom I saw today,

¹ Sir J. Simon went to Geneva on February 5 to attend the opening discussion of the Disarmament Conference.

² This hour refers to the time of receipt in the Foreign Office.

³ No. 75.

informed me that Secretary of State said that he fully appreciated the danger of a 'leakage' in connexion with any memorandum which might be communicated to Creditor Governments and promised to inform Secretary of State at once of my *démarche*. Both Chancellor and Secretary of State will therefore be in possession of Sir R. Vansittart's views before they leave for Geneva tonight.

Official in question said that no decision had yet been taken as regards drawing up a memorandum on the lines indicated. He pointed out however that nothing had happened since publication of the Basle Report although Germans had agreed to date and place of proposed conference.

In view of serious character of economic situation, German Government might find it difficult quite independently of pressure of public opinion in Germany to let matter drag on for another three or four months without taking some kind of action. He added that whilst Chancellor would obviously welcome opportunity of stating his views to you, he did not think French Minister for War would be a very . . .⁴ person to whom Dr. Brüning could open his mind.

I asked official in question to urge on Secretary of State inadvisability of taking any action such as he had considered which might create further difficulties in the handling of the reparations question.

Repeated to Foreign Office and Paris.

⁴ The text here is uncertain.

No. 78

Note by Sir J. Simon of a conversation with Dr. Brüning

(Received February 9)

No. 11 [C 1175/29/62]

GENEVA, February 8, 1932

I had an hour's interview with Dr. Brüning to-day. He arrived from Berlin last night, and is speaking at the Disarmament Conference to-morrow. After reference to my speech to-day (with which I gathered the German delegation was not dissatisfied) and to the suggestion (which the Chancellor approves) of Mr. Henderson becoming the chairman of the General Committee of the conference instead of M. Politis, and to the Memel question, which is coming up before the Council of the League to-morrow (as to which he referred me to Herr von Bülow), we discussed the present position of the reparations question. The Chancellor began by asking whether we were still negotiating with the French about it. I said that we had at no time been seeking a separate agreement with the French, but that we had been carrying on discussions with them in an effort to find a common basis for the Reparations Conference, to which the others, including Germany, might agree. I recalled that we had put forward the enquiry whether Germany would not consent, in connexion with the holding of the Reparations Conference, to a further

suspension of reparations on the same terms as at present, involving the continuance of the Hoover mechanism. Dr. Brüning said that he quite appreciated that this was not a suggestion which we had put forward as from ourselves, but was only an enquiry to ascertain the German point of view. I pointed out that agreement on this head might have secured the prompt holding of the conference on terms acceptable to the French, but that, if this was an arrangement to which Germany would not consent, the alternative to be considered was an effort by the Creditor Powers to forgo any performance by Germany of her obligations under the Young plan for a short period, with a view to reaching a permanent arrangement later. This alternative, however, required the assent of France just as the one I had first mentioned required the assent of Germany. As the necessary assent was not forthcoming in either case, we had reached an *impasse* on this head and much regretted it. There still remained the possibility of at any rate agreeing the time and place of the meeting of the Reparations Conference, and, as no better arrangement seemed possible, it would be something gained to have it agreed that the conference should take place in June before the end of the Hoover year. Even then it might be a difficult matter to settle the scope to be covered by the conference. Britain had no intention of allowing the discussions to be involved with the question of debts to America. I told Dr. Brüning that I had recently heard the suggestion that the German Government were meditating the making of some statement of their position to the French and other Governments in advance of any possible meeting in June. How did this matter stand? The Chancellor replied that they had this course in mind, but had not decided definitely upon it. I told him that I had not had the opportunity of consulting the Chancellor of the Exchequer or my colleagues in the Cabinet, but that my present impression was that it was an undesirable course, for it would do no good, and could only serve to produce irritation and perhaps a counter-statement. Did I understand rightly that Dr. Brüning was contemplating the private communication of such a statement to the Creditor Powers or would the statement be made public? The Chancellor said that the communication, if made, would be private, and he explained the object he had in view as follows: Germany would be running some risk if it said and did nothing until June and appeared to acquiesce in the delay in holding the Reparations Conference, so that the meeting would only take place just before the 1st July. He was afraid that the French might, in their ingenious and logical way, argue that Germany's acquiescence was a proof of her intention to disregard the Young plan and destroy its basis. He had information that some French reservists had been secretly recalled to specialist services like tanks, and that plans had been considered which might indicate that a movement into the Rhineland was contemplated. He must, therefore, be very careful not to make a slip and expose Germany to the charge he had indicated. I said that it seemed to me that a great deal would have to take place before such extreme measures could be in contemplation. Would there not have to be an appeal to The Hague Tribunal, and was not the Bâle report a very effective argument if the question of Germany's

deliberate intention to destroy the Young plan was to be raised? The Chancellor agreed, and added that if there was any question of appealing to The Hague Tribunal, Germany would go there first rather than be taken there by France. He went on to urge that Germany's economic position was getting steadily worse; his public opinion would resent it if the German Government did nothing. I replied that I did not see how the secret communication to France and the other Governments of a document which was not to be published could possibly either assist the economic recovery of Germany or sooth German public opinion. Dr. Brüning met this obvious criticism by saying that he might publish the fact that Germany had made a statement of her position to the Creditor Powers without making known the contents of the statement. Our conversation was broken off at this point, and I told the Chancellor that I should like to send a report on this subject to London, especially as there would be a Cabinet on Wednesday morning. The Chancellor, on hearing that I expected to be at Geneva till the end of the week, said that, in that case, Herr von Bülow would stay here also. He himself must return to Berlin to-morrow (Tuesday) night, but after his speech at the conference to-morrow morning, he hoped there might be the opportunity for a further conversation with me.

J. S.

No. 79

Sir H. Rumbold (Berlin) to Sir J. Simon (Received February 11)

No. 97 [C 1232/77/18]

Sir,

BERLIN, *February 9, 1932*

With reference to my despatch No. 948¹ of the 20th November, 1931, I have the honour to transmit to you herewith a memorandum² prepared by the financial adviser regarding the financial outlook in Germany on the 1st February 1932. Mr. Rowe-Dutton draws attention to certain events, the combined effect of which is to postpone the moment at which the danger point is likely to be reached, but adds there is no indication that the general downward movement has been reversed. Apart from the reparations and disarmament questions, the complexities of the internal situation in Germany are adding to the general feeling of uncertainty, and much will depend upon the solution of the presidential problem, and, subsequently, upon the outcome of the elections in Prussia.

2. I would particularly draw your attention to the last paragraph³ of

¹ See Vol. II, No. 301, of this series.

² Not printed.

³ This paragraph ran as follows: 'In the absence therefore of any modification of the present policy of sacrificing everything in order to keep to the gold standard, there is little reason to anticipate any improvement in conditions. It is still impossible to guess at what point the strain will prove too great for the endurance of the German people or in what form a breakdown of their will to endure might manifest itself. But there can be no doubt that in the conditions described above the German people see every justification for proclaiming their inability to foresee any date at which they will again be able to pay reparations.'

Mr. Rowe-Dutton's memorandum, in which he points out that in the conditions described the German people see every justification for proclaiming their inability to foresee any date at which they will again be able to pay reparations.

I have, &c.

HORACE RUMBOLD.

No. 80

Lord Tyrrell (Paris) to Sir J. Simon (Received February 10, 1932)

No. 32 Saving. Telegraphic [C 1183/29/62]

PARIS, February 9, 1932

Addressed to Geneva No. 1 Saving.

President of the Council has been in the country during the weekend and only returned to Paris this morning. In order to avoid loss of time, I have had a series of conversations with the Ministry of Foreign Affairs in which I have explained in detail the decisions reached by His Majesty's Government in the United Kingdom on the reparations question.

2. I explained first the reasons for which His Majesty's Government could not accept part II of the French formula of January 24 (my telegram No. 28)¹ in view of the reference to this year's reparation régime. The fact that this reference only bound the Creditor Governments not to impose a régime for 1932 more onerous than that now in force and left them free to concede a lighter régime or indeed to have no reparation régime at all, did not make any difference to our point of view. What His Majesty's Government objected to was the suggestion contained in the references of the possibility of the continuance of the Hoover mechanism and therefore of reparation payments. I said that the market had been encouraged by Dr. Brüning's statement and that we did not mean to interfere with the development of this favourable tendency. On the other hand I explained that His Majesty's Government recognised the difficulties constituted for the French Government by the state of French opinion as explained by the French Government. In these circumstances His Majesty's Government would not press their demand for provisional settlement for next year which could only be on the basis of 'no effective payments', meaning, in view of the German attitude, no Hoover mechanism; and His Majesty's Government would, in order not thereby to force an issue which was unacceptable to the French Government, drop the whole of part II of the formula.

3. I then discussed part I of the French formula. His Majesty's Government had always held that the conference should be a reparations conference, designed to secure what the Chancellor of the Exchequer had described as 'a comprehensive and permanent settlement of the reparations question as soon as possible'. His Majesty's Government had steadily opposed the French Government's suggestion to mix up this conference with the consideration of general, financial and economic questions and with war

¹ No. 71.

debts. What we wanted at once and before any of these questions were discussed was a settlement of reparations which would show the United States that Europe could settle her own difficulties for herself. We wanted a general cancellation of reparations and we would excuse war debts to any Power which was indebted to us, provided it had excused reparations: what we wanted first was a general and unconditional agreement in Europe on these lines. Then and then only would arise the question of the approach to America; in this connexion I laid great stress on the sentence in Foreign Office telegram No. 49,² reading 'If the French agreed in principle, difference between our two Governments became largely a matter of tactics'. We might prefer to limit our approach to America to a simple communication of the general European agreement; the French might prefer to proceed otherwise. But the end in view was probably much the same; and I called attention to the words in Foreign Office telegram No. 49 'it being understood debts would have to follow'. I took this opportunity to remind the Ministry of Foreign Affairs that if any Creditor Power insisted on payment of reparations, we should require a share in the reparations so paid.

4. On the other hand, His Majesty's Government had taken note of the difficulties of the French Government as explained to them, and they were naturally anxious to help the French Government if they could do so without impeding the fulfilment of their own ends. In these circumstances they would meet the French Government by agreeing to a reference in part I of the formula to the consideration of general financial and economic questions; but on the express condition that it was made clear that the primary object of the conference was the discussion of reparations. For this purpose His Majesty's Government asked for the reversal of the order of the references in part I of the formula to the general questions and to reparations; reparations, i.e., the questions dealt with in the Basle Report, must come first. This was absolutely essential, and the point was not open to discussion.

5. I raised the question of tranquillity. I explained that His Majesty's Government asked for the addition of a new paragraph to the formula reading: 'Pending the meeting of the conference the two Governments are also agreed to do all they can to bring about a relaxation (*détente*) in the international situation and to recommend the other Governments concerned immediately to join with them for the attainment of this end.' I said that I was instructed to explain, for the private and confidential information of the French Government, the implications which we considered this paragraph in the formula would have for it:

(1) Our view was definitely that the Basle Report entitled Germany to make no payments whatever during 1932 without the acceptance of any condition whatever and without the Hoover mechanism. Despite that view we had tried to get the German Government to accept the Hoover mechanism. We had failed and we were not prepared to renew this attempt. If then

² Not printed. This telegram of February 8 was sent to Geneva and repeated to Paris. It summarized the comments of the Chancellor of the Exchequer to Lord Tyrrell on the conclusions reached at the meeting of February 3 reported in No. 76.

there were unfortunately a German default in the autumn, we could not be expected to join in denouncing it, and in such circumstances we would have, if pressed, to declare that Germany had been forced to suspend payments by circumstances beyond her control, and that she was justified in refusing the Hoover mechanism. I said that His Majesty's Government were confident that in these circumstances and whatever might be its own views, the French Government would avoid raising at the moment, and before the meeting of the conference, this question; its discussion, besides being premature, would undermine confidence. This we wished to restore by our tranquillity proposal.

(2) We hoped that if agreement was reached on the formula, the Bank of France would maintain its co-operation with the other Central Banks as regards its credits to the Reichsbank. We wished to hear no more threats to withdraw French credits; and we felt sure the French Government would share our point of view.

(3) I said that I was instructed to mention a third question, although it was in no way whatever connected with reparations. That question was the surtax. The French Government would have noticed the Chancellor of the Exchequer's announcement that His Majesty's Government were taking powers to impose duties up to 100 per cent. in cases where British goods were discriminated against. But both the Chancellor and the President of the Board of Trade had assured me that they had no desire to deal with this matter on a basis of retaliation, but on a basis of reciprocity. Here I drew attention to the phrase in the Chancellor's speech reading 'to extend the principle of reciprocity' and to certain of the succeeding passages. I added that in these circumstances His Majesty's Government looked to the French Government to settle this irritating question at once, and as a first step to withdraw coal without condition or demand for counter-concessions. I said that if I were able to report that the French Government was ready to do this, the effect would certainly be considerable. When asked what would be our attitude about the goods which would still remain subject to the surtax, I said that the French Government would no doubt have to put that question in London. I added that the Chancellor of the Exchequer had told me that while there could be no decision before the Ottawa conference ('We do not intend to *conclude* any arrangements of this kind with any foreign country until we have made our agreements with the conference at Ottawa'), he would not perhaps refuse to initiate conversations before then, were the French Government to desire it and to decide to ask him to do so. I repeated that the first necessity was a gesture by the French Government and the unconditional withdrawal of coal. Whilst our sole desire was to deal with France on a basis of reciprocity, it must not be forgotten that powers were now being taken to impose retaliatory action, and that if the French Government compelled us to do so, we would not leave those powers unused.

6. I explained your views (as set out in paragraph 1 of your telegram No. 49) regarding necessity of acceptance of formula by other Governments before publication.

7. In concluding my explanations, of which a full note was taken which I

subsequently verified, I emphasised again the fact that these explanations were designed to show the decision of His Majesty's Government that we must finish with all this business, and I mentioned the deplorable impression which would be created in London by refusal to meet us now. We had made a very big advance towards the French point of view. We realised their difficulties, but the time had come to settle; otherwise it would be thought in London that the French Government did not wish to settle. When the question was put to me whether, if there were still difficulties about the formula, it might not be possible to settle for the moment on the basis of the tranquillity clause, I said that there could be no question of that. If the French Government would not settle over the terms of reference of the reparations conference, there was no possibility of tranquillity and we had no further immediate interest in attempting to arrange matters with them. I made an especially pressing and personal appeal to M. Berthelot to secure a settlement.

8. In order that there should be no possibility of misunderstanding I made a similar communication to the Finance Minister last evening.

Repeated to Foreign Office No. 32 Saving.

No. 81

Lord Tyrrell (Paris) to Sir J. Simon (Received February 10)

No. 33 Saving. Telegraphic [C 1180/29/62]

PARIS, February 9, 1932

Addressed to Geneva No. 2.

This evening's 'Temps' announced that Ministerial Council decided this morning that Finance Minister should publish tomorrow February 10 a statement giving French estimate of German reparations deliveries to date. Statement would constitute French reply to German statement of January 29.

2. Immediately I read this, I saw M. Berthelot and pointed out to him unfortunate effect of such a statement coinciding, as it would, almost exactly with agreement regarding addition of tranquillity clause to formula. M. Berthelot admitted the force of my contention, but claimed that proposed statement was merely a reply to very controversial statement issued by German Government on January 29 (see Berlin despatch No. 82¹ of January 30). He said that it was thus in a different category to statement on economic condition of Germany which His Majesty's Ambassador, Berlin, is urging German Government not to publish, latter being a document which will start an entirely new controversy. Eventually M. Berthelot promised to do his utmost to prevent publication of statement tomorrow; and undertook that, if it did appear, it would contain no provocative comment, if any.

Repeated to Foreign Office No. 33.

¹ Not printed. This despatch reported the publication of a semi-official German statement of various payments made by Germany under the terms of the Armistice Agreement and the Treaty of Versailles. As Sir H. Rumbold pointed out, the statement was extremely controversial, e.g. the sum given for payments made up to August 31, 1924, was 42 milliard Reichsmarks, whereas the Reparation Commission put the sum for the same period as 8 milliard Reichsmarks.

No. 82

Sir R. Vansittart to Lord Tyrrell (Paris)

No. 51 Telegraphic [C 1183/29/62]

FOREIGN OFFICE, *February 10, 1932, 7.30 p.m.*

Following from Vansittart:—

Paragraph 5 of your telegram to Geneva No. 1 Saving.¹

We had not contemplated that the undertaking to maintain tranquillity should assume the form of [? adding] a paragraph to the public formula with regard to the convocation of the Reparations Conference in June. The conception rather was that the undertaking should be private, and take the form of a 'gentlemen's agreement' between the Governments concerned, including Germany. The publication of such an undertaking might give rise to all sorts of awkward questions, as to what questions are governed by the terms 'relaxation of the international situation', for instance, whether this had any relation to the Polish Corridor, etc. etc.

This consideration might even deter the Germans from subscribing to a public formula which includes such a paragraph.

Inasmuch as both the public formula regarding the Conference, and the unpublished 'gentlemen's agreement' regarding tranquillity, are destined to represent the views of the six inviting Governments, i.e. Great Britain, France, Italy, Belgium, Japan and Germany, the wording of both must be drafted accordingly and not at any stage take the form of Anglo-French pronouncements.

It would be as well to clear up these points with the French now, in order to prevent any subsequent misunderstanding.

There can of course be no question of publication of formula until all Governments concerned have accepted it and it is most important to avoid any leakage on subject of proposed tranquillity agreement.

Repeated to Geneva No. 125.

¹ No. 80.

No. 83

Lord Tyrrell (Paris) to Sir J. Simon (Received February 11, 8.30 a.m.)¹

No. 34 Saving. Telegraphic [C 1214/29/62]

PARIS, *February 10, 1932*

Addressed to Geneva No. 3 Saving.

My telegram No. 1 Saving.

M. Berthelot informed me privately this morning that President of Council would ask me to call upon him within the next twenty-four hours in order to communicate to me French Government's acceptance of the reparations

¹ This hour refers to the receipt of the telegram in the Foreign Office.

formula decided upon by His Majesty's Government in the United Kingdom. M. Laval would at the same time communicate to me an aide-mémoire announcing the withdrawal of coal from the surtax and expressing the hope that this would be accepted by His Majesty's Government as a proof of the goodwill of the French Government in this matter and that His Majesty's Government would be prepared to *open* a general commercial negotiation.

2. It will obviously be impossible to keep entirely secret the fact of the conclusion of the agreement. Indications that something is imminent are already beginning to leak out; and in these circumstances it will no doubt be desirable, as soon as the formula has been definitely accepted by M. Laval, to notify the other interested Governments, particularly the German and Italian Governments, without delay. Possibly you may think that, in order to avoid the danger of the fact that agreement has been reached becoming public before at least the German and Italian Governments have been warned, the best course would be for you to explain the position to the heads of the German and Italian delegations on receipt of a telephone message from me that the French Government has accepted the formula. French Government would presumably notify Ambassadors here; and Belgian and Japanese Ambassadors could be notified in two capitals. M. Berthelot particularly asked this morning that *nothing should be done as regards notification to the other Governments until after the formula had been officially accepted and until after the method of communication to them had been agreed upon by M. Laval and myself.*

3. Formula, which is still subject to possibility of one or two purely verbal changes, reads as follows:

'The British and French Governments after having taken note of the Basle experts' report are agreed to recommend to the participating Governments the adjournment of the Lausanne Conference to the month of June. The object of the conference will be to agree on a lasting settlement of the questions raised in the report of the Basle experts and on the measures necessary to solve the other economic and financial difficulties which are responsible for the present world crisis.

'Pending the meeting of the conference the two Governments are also agreed to do all in their power to bring about a relaxation in the international situation and to recommend the other Governments concerned immediately to join with them for the attainment of these ends.'

4. M. Berthelot was particularly insistent that agreement was only an arrangement designed to secure general agreement of interested Powers; and that it could in no circumstances be described as an attempt to 'spring' or force something on other Powers concerned. All it represented was a firm promise on the part of Great Britain and France to attend a conference in June, an expression of their desire to reach there 'a lasting settlement' and of their hope that pending the meeting of the conference nothing would be done to disturb the general tranquillity.

Repeated to Foreign Office No. 34 Saving.

No. 84

Lord Tyrrell (Paris) to Sir J. Simon (Received February 11)

No. 35 Saving. Telegraphic [C 1215/29/62]

PARIS, February 10, 1932

Addressed to Geneva No. 4 Saving.

My telegram No. 2¹ Saving.

M. Berthelot spoke to me again this morning respecting the French estimate of German reparation deliveries. He said that, as I was aware, announcement of imminent publication of this statement had already been made in the newspapers; that German Ambassador had already been warned of intention to publish; and that some public statement of the French Government's views was only equitable; otherwise it must go by default and German statement, which was to say the least of it most questionable on certain points, would be accepted throughout Europe and the world as representing the true position. This, M. Laval felt, was asking the French Government for too much; and whilst French Government fully recognised undesirability of any fresh controversy its view was that it was entitled after German statement, to record its own position. As result of my representations statement had been carefully revised, and M. Berthelot said that President of Council was sure that in form in which it would now appear no exception could be taken to it. Once German and French Governments had both stated their points of view on this question, French Government, like us, earnestly hoped that all future public declarations and statements on positions of various governments on reparations and debts questions might cease until the meeting of the conference in June.

Repeated to Foreign Office No. 35 Saving.

¹ No. 81.

No. 85

Sir R. Vansittart to Mr. Patteson (Geneva)

Nos. 127 and 128 Telegraphic [C 1214/29/62]

FOREIGN OFFICE, February 11, 1932

Following for Secretary of State from Sir R. Vansittart.

My views on Lord Tyrrell's Saving telegram to you No. 3 Saving¹ are as follows, and I have communicated with him accordingly, since he is seeing M. Laval at noon.

1. The second paragraph of the formula is dealt with in my telegram to him No. 51² repeated to you No. 125. It should therefore go out of published statement. In any case our original formula on this point is the better and should if possible be adhered to.

2. The assent not only of the German and Italian Governments as suggested but also of the Belgian and Japanese Governments should be sought at Geneva.

¹ No. 83.

² No. 82.

You have presumably some Belgian Minister as well as M. Matsudaira still with you.

3. The first paragraph of the formula will then run when published that all the said Governments agree upon the adjournment etc. We have always contemplated general assent including particularly Germany, and not a bilateral agreement.

4. Subject to these points we agree to the conclusion of Lord Tyrrell's second paragraph.

I hope this may be dealt with as soon as possible and by you at Geneva. This is particularly important as the invariable leakages are already occurring in Paris and being published, with a tendency to connect coal and reparations in a manner that suggests a bargain, and will therefore have a disquieting effect elsewhere. I shall have it stressed, in any information that I may in consequence be compelled to give here, that there is no connexion whatever between the two; but it will carry more conviction if I can add that while there have of course been conversations about the surtax in Paris and also about reparations the seat of the latter question is now at Geneva.

Repeated to Paris Nos. 52 and 53.

No. 86

Lord Tyrrell (Paris) to Sir J. Simon (Geneva)

No. 1 Telegraphic: by telephone [C 1237/29/62]

PARIS, February 11, 1932, 1.45 p.m.

Addressed to Geneva Telegram No. 1; repeated by telephone to Foreign Office No. 33.

Formula was accepted by M. Laval this morning. Part I is as stated in paragraph 3 of my telegram No. 3 Saving.¹ Part II has been suppressed in accordance with Foreign Office telegram No. 51:² and has been replaced by a sentence reading 'The common desire of the two Governments has led them to conclude this agreement which they hope will ease the international situation'.

2. Please note that 'agreement' is in fact only one to make a 'recommendation' to other participating Governments and on this point see paragraph 4 of my telegram No. 3 Saving.

3. M. Laval agreed that text should not be published until after other Governments had accepted; and until to-morrow evening (when M. Laval is seeing the Foreign Affairs Commission of Senate) nothing will be said to newspapers. Even then, if other Governments have not yet accepted, he will only communicate substance of agreement.

4. M. Laval agreed that other Governments should be informed immediately and instructions are being sent to M. Tardieu in this sense.

5. Statement made by M. Laval in accepting agreement and aide-mémoire respecting surtax will be sent by bag or post to-night.

¹ No. 83.

² No. 82.

No. 87

Sir R. Vansittart to Mr. Patteson (Geneva)

No. 134 Telegraphic [C 1237/29/62]

FOREIGN OFFICE, *February 11, 1932, 5.00 p.m.*

Following from Sir R. Vansittart:—

Paris telegram No. 1 of today's date, addressed to you and repeated to Foreign Office, No. 33.¹

Paragraph 1. Part 1 of formula as pointed out in my telegram to Paris No. 51 of February 10, repeated to you, must take a multilateral form, and should therefore begin:

'Governments of Belgium, France, Germany, Italy, Japan and United Kingdom, after having taken note of the Basle Experts' Report are agreed to recommend to the other Governments concerned the adjournment of the conference, etc.'

If necessary at all, the new sentence to replace tranquillity formula ought, we feel, to run: 'This decision has been reached by the above Governments in the hope that it will ease international situation.'

Paragraph 2. The agreement which is described as no more than 'a recommendation to the other participating Governments' constitutes no doubt inevitable step in the direction of achievement of multilateral agreement at which we are aiming, but we are particularly anxious not to give publicity to this step in the negotiations since to do so would exaggerate exclusively Anglo-French character of the agreement.

Paragraph 3. For the above reasons His Majesty's Ambassador should urge M. Laval to avoid giving in any communication to the press the impression that the agreement is an Anglo-French one, in which other Governments have merely acquiesced.

Paragraph 4. Presumably M. Tardieu's instructions cover also unpublished gentlemen's agreement on tranquillity.

Repeated to Paris No. 55.

¹ No. 86.

No. 88

Lord Tyrrell (Paris) to Sir J. Simon (Received February 12, 10.15 a.m.)¹

No. 36 Saving. Telegraphic [C 1240/29/62]

PARIS, *February 11, 1932*

Addressed to Geneva No. 5 Saving.

My telegram No. 1 Saving.²

President of Council asked me to call upon him this morning in order to give me the French Government's reply to the explanations given, on your

¹ This hour refers to the receipt of the telegram in the Foreign Office.

² No. 80.

instructions, of the decisions reached by His Majesty's Government in the United Kingdom on the questions of reparations and the surtax. M. Laval was accompanied by M. Berthelot and by the Head of the Commercial Department of the Ministry of Foreign Affairs.

2. M. Laval informed me that the French Government accepted Part I of the formula in the terms desired by His Majesty's Government. This part accordingly reads:

'The British and French Governments, after having taken note of the Basle Experts' Report, are agreed to recommend to the participating Governments the adjournment of the Lausanne Conference to the month of June. The object of the conference will be to agree on a lasting settlement of the questions raised in the report of the Basle experts and on the measures necessary to solve the other economic and financial difficulties which are responsible for and may prolong the present world crisis.'

3. As explained in my telegram No. 3 Saving³ I had, on the understanding that this was your wish (see Foreign Office memorandum of February 3: N.B. your despatch No. 330⁴ dated February 6 containing your written instructions only arrived *after* my meeting with M. Laval this morning), secured the insertion of a second paragraph in the formula dealing with tranquillity. On receipt this morning of Foreign Office telegram No. 51⁵ I obtained M. Laval's consent to the deletion of this passage from the formula. To cover the references to tranquillity which I had made in the representations reported in my telegram No. 1 Saving, I agreed to a final sentence reading as follows:—

'The common desire of the two Governments has led them to conclude this agreement which they hope will ease the international situation.'

4. In accepting the formula M. Laval informed me that as I, in asking for the French Government's acceptance, had explained the position of His Majesty's Government on the reparations question, he, for his part, desired to state the position of the French Government. A statement which he made and which was taken down *verbatim*, reads as follows:

'In accepting the present formula suggested by the British Government, and of which the essential purpose is to mark the agreement of the interested Governments respecting the postponement of the Lausanne Conference to its meeting next June, the French Government feels obliged, in order to avoid all possible doubt, to make every reserve on the oral comments by which it was accompanied, so far as those comments define the British position on the questions concerned. The Government of the Republic must in particular explain that the object of the conference as laid down by the declaration leaves unaffected its liberty of action and its position. The French thesis regarding reparations continues to be that which I explained in my last speeches in the Chamber of Deputies.' On this point please see my telegram No. 6 Saving⁶ of to-night.

³ No. 83.

⁴ No. 76.

⁵ No. 82.

⁶ No. 89.

5. I said that as M. Laval was aware the present position of His Majesty's Government had during the last few days been stated by me at the Ministry of Foreign Affairs. A record of my statement was in his possession and is contained in my telegram No. 1 Saving to Geneva.

6. M. Laval then said that he desired to comment on my observations respecting the necessity of keeping the international atmosphere as tranquil as possible until the meeting of the conference. These observations were in too close agreement with the views of the French Government for the latter not to welcome them. They appeared to M. Laval all the more opportune owing to the fact it had not for the moment been possible to arrange a meeting between himself and the Prime Minister. He desired to give the following explanations on the first two points mentioned in paragraph 5 of my telegram No. 1 Saving, viz. our view that there was no obligation upon Germany to make any payments whatever during 1932 and our hope that the Bank of France would maintain its cooperation with the other Central Banks as regards credits to the Reichsbank.

7. As regards the German payments in 1932 M. Laval said that as Germany had been granted a moratorium until July 15 next, there was no need to fear that the Creditor Governments would have to take note of, or to give their opinion upon, a default on her part and its consequences before the next conference. It went without saying that the French Government only agreed not to make any official declaration on this question before that date, so long as the German Government abstained from making any new declarations respecting notably the invalidity of the Young Plan, the definite cessation of reparation payments, etc. As regards the credits to the Reichsbank, it was obvious that the agreement which had just been reached, could only, by the manner in which it would ease the general situation, have a favourable influence on the decisions of the Bank of France. But we must not forget that that institution was independent of the French Government and that the French Government could not expose itself, by urging the Bank to maintain the credits to the Reichsbank, to the danger of seeing itself asked to guarantee those credits.

8. I then raised the question of the acceptance by the other Governments concerned, viz. Belgium, Germany, Italy and Japan, of the agreement reached. I said that I understood that you thought the best and most speedy procedure would be to endeavour to secure this acceptance through their representatives at Geneva and I expressed the hope that the French delegate at Geneva would act with you in this matter. M. Laval agreed to this proposal and undertook that the text of the agreement reached should not be published until the other Governments had endorsed it and had made it their agreement also. M. Laval added that it would be necessary to secure this agreement quickly as indications of what was passing had already appeared in the newspapers and when he appeared before the Senate Foreign Affairs Commission tomorrow evening he would certainly be asked questions and would find it very difficult to conceal from the Commission the substance of what had passed. I would point out that all we have secured by the present

agreement is the consent of the French Government to a meeting in June and French admittance that the object of the conference will be to secure lasting settlement of the questions raised by the Basle report, etc. Presumably none of the other Governments concerned can object to this.

9. M. Laval then turned to the question of the surtax and handed me a written memorandum (copy enclosed in my despatch No. 205⁷ of to-night) of which the following is a translation.

Begins:

'In its desire to give the British Government a proof of the cordial character of the economic relations of the two Governments, the French Government is ready to free coal of the 15 per cent. exchange tax. Convinced that this decision will be appreciated by His Majesty's Government the French Government would be happy to know that this decision gives it satisfaction owing to the appeasement which British opinion will find therein.

'The Government of the Republic is further anxious to open as soon as possible general negotiations for the purpose of settling the questions still pending between the two Governments and also for the conclusion of an agreement which will establish on a lasting basis the economic relations of the two countries and will be in conformity with their common will not to place any hindrance in the way of the normal currents of their commercial exchanges.'

10. I undertook to communicate this memorandum to you and I promised to inform M. Laval of your views in due course. I understand that the second sentence and beginning of the third sentence of the memorandum were deliberately rather vaguely worded in order not to oblige His Majesty's Government to give too definite an answer as to whether or not the surtax question was finally settled by the withdrawal of coal. The French Government's hope is that the question of the remaining goods subject to surtax may, if His Majesty's Government wish to pursue it, be dealt with as part of the general negotiations; it is obviously hoped that in your reply too definite a reference will not be made to this fact.

Repeated to Foreign Office No. 36 Saving.

⁷ Not printed.

No. 89

*Lord Tyrrell (Paris) to Sir J. Simon (Received February 12, 9.0 a.m.)*¹

No. 34 Telegraphic [C 1262/29/62]

PARIS, February 11, 1932

Addressed to Geneva No. 6 (Saving).

My telegram No. 5 (Saving).²

Prior to my interview with President of the Council M. Berthelot spoke to me on following lines:

1. Though he did not specifically say so I had the distinct impression that

¹ This hour refers to the receipt of the telegram in the Foreign Office.

² No. 88.

he wished President of Council's oral statement respecting French Government's position on reparations question to be received in light of his remarks. His Excellency repeated to me more than once that President of the Council's statement merely defined *present* position of French Government. The implication was that it did not necessarily follow that French Government would in June adhere to that position in its entirety.

2. First M. Berthelot said that whilst he welcomed agreement which had been reached we had pressed the French Government very hard in this matter and in so doing had not hesitated to take up position definitely in favour of German thesis that Germany was not in a position to pay further reparations. M. Berthelot had never had any doubt that once payment was suspended last July reparations were dead. None the less he would ask me to remember that he had a long and very considerable acquaintance with Germany; that he had spoken German before he had spoken French and that he was under no illusion that however much German Government might plead the difficulties of the position of Germany at the present moment there was no reason why within a very short period Germany would not have attained to an economic position stronger and even more dominant than that which she had enjoyed before the war. He hoped that we would remember that at least one quality of German nation was its capacity to 'mentir en bonne foi'.

3. He thought we ought to realise that no one more than he was aware of danger of continuance of hostility between France and Germany. France had a population of little over 40,000,000; the German population already numbered 65,000,000 and there was no reason why before many years were past it should not have risen to 85,000,000. In these circumstances any French Government which did not do its utmost to secure a lasting agreement with Germany would be guilty of more than folly. His criticism of Briand's policy—and he had never hesitated to urge it upon M. Briand—had always been that he did not go far enough. The policy should have been 'plus large'; and then perhaps it might have been possible to reach agreement with Germany. Were agreement not reached, Germany must from economic point of view threaten France which was an [economical]³ but 'un petit pays' and from economic to military threat the distance was not great. M. Berthelot stated that this was the reason why he welcomed so cordially the agreement which was about to be concluded. He was sure that it was by steady development of policy which underlay and had made possible this agreement that a much wider agreement between Great Britain and France and Germany would be obtained. But we must continue to follow method which had answered so successfully on this occasion, for without a preliminary Franco-British agreement the agreement of the three Powers was not only rendered more difficult but almost impossible.

4. M. Berthelot said that in his view a solution of reparations question on lines which we recommended was essential and inevitable. French opinion had not yet realised situation, but French opinion could be educated. Whether

³ The text here appears incomplete.

agreement which we desired would be possible as early as June he would not like yet definitely to say. But in June Chamber would be new and with a new Chamber much might be accomplished.

5. Above is most secret and confidential.

Repeated to Foreign Office.

No. 90

Mr. Patteson (Geneva) to Sir R. Vansittart

No. 56 L.N. Telegraphic: by telephone [C 1262/29/62]

GENEVA, February 12, 1932, 10.0 a.m.

Following from Sir J. Simon:—

Your telegram No. 134¹ and my despatch No. 11.²

Formula for reparations meeting.

I saw Von Bülow early this morning. He must communicate with Berlin and hopes to let me have Chancellor's agreement this afternoon.

Germany in agreeing will wish to make clear that her own desire is for an immediate meeting and that she agrees to June only because others do not consent to an earlier date.

I objected to Germany's signing with a reservation attached and said I hoped Germany's statement of her own position would take the form of a short explanation published independently and without provocative criticism of others which would only provoke retorts. Bülow's reason for making explanation is (a) to satisfy his public opinion; (b) to avoid the charge hereafter that Germany by this delay contributed to undermining of Young Plan—see my recent interview with Dr. Brüning.

Signor Grandi agrees entirely with our view.

If Germany agrees and I obtain the other consents I should like announcement to be made to-night as from Geneva.

This would best contribute to creating atmosphere of European agreement for all purposes.

¹ No. 87.

² No. 78.

No. 91

Mr. Patteson (Geneva) to Sir R. Vansittart (Received February 12)

No. 57 L.N. Telegraphic [C 1278/29/62]

GENEVA, February 12, 1932

Following for Sir R. Vansittart from Sir W. Selby¹:—

Our telegram No. 56² of today.

Following is text of formula communicated to German, Belgian, Italian and Japanese representatives.

'The Governments of Belgium, France, Germany, Italy and Japan and the United Kingdom, after having taken note of Basle Experts' Report are

¹ Principal Private Secretary to Sir J. Simon.

² No. 90.

agreed to recommend to other Governments concerned adjournment of Lausanne Conference to the month of June. The object of the conference will be to agree on a lasting settlement of question raised in Report of Basle Experts and on methods necessary to solve other economic and financial difficulties which are responsible for the present world crisis.

'This decision has been reached by the above Governments in the hope that it will ease the international situation.'

A copy has also been given to M. Massigli.

As I explained to you on the telephone, Secretary of State's idea is that there should be simultaneous publication here as soon as we learn that the Governments concerned agree. German and Belgian replies are still outstanding but are expected this evening.

No. 92

Mr. Patteson (Geneva) to Sir R. Vansittart
No. 58. L.N. Telegraphic: by telephone [C 1279/29/62]

GENEVA, February 12, 1932

Following from Secretary of State.

Serious difficulty arose at last minute with French Government in regard to formula transmitted in my telegram No. 57,¹ when I learnt that they were anxious to publish agreement in Paris as purely Franco-British agreement instead of multilateral agreement and declared this was in accordance with text contained in Lord Tyrrell's telegram No 5 Saving.²

I immediately called on M. Tardieu and explained that it would be quite impossible for me to agree to publication of agreement in that form since not only had my Government maintained from the first that agreement must be multilateral but I had communicated to all principal Governments the formula as contained in my telegram No. 57. I had moreover just learnt that all Governments including Germany were ready to agree to formula which I had submitted to them.

M. Tardieu said he had received a telegram from M. Laval insisting on importance for him of publishing agreement as set out in Lord Tyrrell's telegram No. 5 Saving as it was vital for him to emphasize Franco-British agreement. I told M. Tardieu that I was unable to meet M. Laval's point of view but that I would, in order to help his difficulty, consent to the issue in Paris of the following introductory words: 'as the consequence of the adjournment of the Conference of Lausanne which had been planned for last January, the Governments of the United Kingdom and France have been engaged in a discussion of the conditions in which the Conference might meet. As a result of the exchange of views, the basis of an agreement was reached between the two Governments. Sir John Simon, Secretary of State for Foreign Affairs, was requested to communicate with the Governments principally interested and it is now possible to make the following announcement.'

Here follows text of agreement contained in my telegram No. 57 with

¹ No. 91.

² No. 88.

insertion in last sentence of first paragraph after 'are responsible for' of 'and may prolong, etc.'

I have just heard that M. Laval is willing to accept this solution of the difficulty and proposes to make announcement on these lines at 11 a.m. to-morrow.

You should make simultaneous announcement in London.³

By insisting on preserving our text I have maintained multilateral character of announcement. I felt it necessary to concede introductory words for Paris especially as Brüning is publishing explanatory passage in Berlin to the effect that Germany would have welcomed an earlier meeting.³

³ This announcement was made on February 13.

No. 93

Mr. Patteson (Geneva) to Sir R. Vansittart (Received February 13, 12.10 a.m.)

No. 59 N. Telegraphic [C 1280/29/62]

GENEVA, February 12, 1932

Following from Secretary of State:—

My telegram No. 56.¹

Herr von Bülow informed me this evening that the German Government were willing to accept the formula which I had submitted to them.

They would however explain that since the publication of the Basle report they had been anxious to secure immediate meeting of the Conference. It had not however been possible to secure the agreement of all the Governments concerned. However agreement had now been reached to hold a conference at a later date. I impressed on Herr von Bülow importance of avoiding anything in the nature of elaborate or controversial statement of the German position. Herr von Bülow said he would impress this on the Chancellor but he did not think any further declaration would be necessary although Chancellor would be called to make a statement before the Foreign Affairs Committee.²

Herr von Bülow said that he hoped that His Majesty's Government would be ready to afford assistance to Germany if any trouble arose with France as a result of no agreement being reached by July 1. As regards Conference itself he suggested advisability of including such Powers as Switzerland, Holland and Sweden who were interested in the Standstill Agreement and he hoped that this might be considered.

Japanese Ambassador here said he was prepared to take responsibility for accepting agreement on behalf of his Government whom he would inform. Belgian Government have also informed me of their acceptance.

¹ No. 90.

² The German Government issued the following declaration:—"The German Government has by this agreement obtained its objective, the summoning of the Lausanne Conference. The German Government would, of course, have liked the Conference to meet sooner, in accordance with the report of the Basle experts, and not to be put off until June. They had therefore, for their part, suggested an earlier meeting, and had, from the start, warmly welcomed and supported the efforts of the British Government in this direction."

CHAPTER II

German internal affairs: the fall of Dr. Brüning's administration: Anglo-French discussions before the Lausanne Conference

(February 17—June 14, 1932)

No. 94

Sir H. Rumbold (Berlin) to Sir J. Simon (Received February 19)

No. 123 [C 1434/235/18]

Sir,

BERLIN, February 17, 1932

Now that President Hindenburg has announced his readiness to stand again for a further term of office, it may be of interest to put briefly on record the sequence of events which led to his decision on the subject. As matters have turned out the question of the President's candidature degenerated into a party question.

2. The Chancellor's original intention in endeavouring to bring about the re-election of the President through the Reichstag, was inspired by the thought that, once the question of the presidency had been settled in the sense of a renewed term of office for the field-marshal, Germany's position at the Reparations and Disarmament Conferences would be greatly strengthened. Dr. Brüning's conversations with Hitler at first held out promise of success, and it was only when the Nazi leader consulted Hugenberg that the prospects of obtaining the majority of two-thirds in the Reichstag necessary for the success of the procedure contemplated, fell through. It must be remembered that Hugenberg and his party will do anything they can to get rid of the present régime. The German Nationalists represented Dr. Brüning's proposal for the re-election of the President through the Reichstag as an attempt on the Chancellor's part to fortify his own position. They argued that if they supported this attempt they would be a party to the continuance of Dr. Brüning in office. The failure of Dr. Brüning's negotiations with Hitler caused many people to criticise the Chancellor for ever having engaged in them.

3. The question of the presidency had, therefore, to be decided by election in the manner contemplated by the Constitution, and it is quite conceivable that if the President had, from the first, announced his intention of standing again there would have been little room for the subsequent intrigues. But he would not commit himself on that point without the assurance of being backed by, at all events, a section of the voters who had voted for him at

the first election. The Stahlhelm allowed it to be known—one of their leaders, in fact, stated this to me—that they would support the President's candidature on conditions. These conditions were that he should get rid of the present Chancellor or, as they describe it, of the present system. In view of the President's hesitation to stand again, the Burgomaster of Berlin, Dr. Sahm, then conceived the idea of opening lists in which all those favourable to President Hindenburg's candidature could write their names. He eventually succeeded in collecting some 3 million names, which certainly included persons of every shade of opinion. But the matter was still in doubt as late as the 11th instant, when I was informed by the Prussian Secretary of State (please see my despatch No. 109¹ of the 12th instant), that the President's decision would be determined by the attitude of the Stahlhelm. As events turned out this information was inaccurate, and it is fairly safe to surmise that the field-marshal's decision to stand was determined by the action of the Kyffhäuser Bund² in coming out in his favour, as well as by the evidence of popular opinion on the subject, as shown by the 3 million signatures obtained by Dr. Sahm's committee in favour of the President's renewed candidature. Many associations of ex-combatants throughout the country are affiliated to the Kyffhäuser Bund, which is stated to include some 3 million adherents as well as many generals of the former army. It is thus a more important organisation than the Stahlhelm, though less vocal than the latter. There is also every reason to suppose that a large proportion of the Stahlhelm will vote for the field-marshal.

4. The Stahlhelm leaders tried their best to drag the President into the party arena, but without success, and the Prussian Prime Minister, who is a friend of the field-marshal, urged on the latter the impropriety of the conduct of those leaders in trying to impose conditions on the constitutional head of the State. The Opposition are now in difficulties and do not seem to be able to agree on a common candidate. There is a persistent rumour that Hitler will secure his naturalisation by accepting a sinecure professorship in Brunswick in order to be able, should circumstances demand it, to present himself as the candidate of the Nazis, whilst the German Nationalists would put up Hugenberg. The weakness of the latter would then be revealed, and there is considerable reason to suppose that Hitler is by no means anxious to stand as a candidate against the President. The Prussian Prime Minister is already, in fact, stated to be discounting Hitler's discomfiture and talks of hurrying on the Prussian elections in the event of Hitler suffering a heavy defeat at the polls. Incidentally, I know for a fact that Hitler recently consulted a fortune-teller and was informed that he had no future.

5. The simple language in which the President has announced his readiness to put his services again at the disposal of the country should be in itself a rebuke to those parties who have been trying to make a bargain with him

¹ Not printed. In this despatch Sir H. Rumbold reported (i) that the Stahlhelm leaders had told the President that they would support him if he 'would agree to drop the Chancellor', (ii) that the President refused 'to entertain a bargain of this kind'.

² A society of ex-servicemen founded after the Franco-Prussian war.

in order to bring about the fall of the Chancellor. The country is, however, permeated with party politics, which seem to enter into political considerations of every kind, and to lose sight of the international problems which are of vital interest to the nation.

I have, &c.

HORACE RUMBOLD

No. 95

Sir H. Rumbold (Berlin) to Sir J. Simon (Received March 4)

No. 146 [C 1750/235/18]

Sir,

BERLIN, March 1, 1932

I recently met at dinner General Hammerstein, the General Officer Commanding the Reichsheer, and had a long conversation with him which was not without interest, and may be summarised as follows:—

2. The conversation took place after the adjournment of the Reichstag, and naturally turned on the proceedings in that assembly, and on the forthcoming presidential election.

3. General Hammerstein commented in scathing terms on the conduct of the National Socialist Deputies during the meeting of the Reichstag. Those who, like myself, listened to the Chancellor's speech in the Reichstag and witnessed the unmannerly interruptions and the really insolent behaviour of the Nazis, could not, indeed, help wondering how Germany would fare if her destinies were entrusted to such representatives. When, at one moment, a group of Nazis headed by Dr. Goebbels advanced to the rostrum from which the Chancellor was speaking and shook their fists at him, I was reminded of a scene which I witnessed in the Chinese Parliament at Peking in 1913, when, after an uproar of half an hour, one of the members rushed at the Speaker, who escaped by a back door. General Hammerstein, however, added that it would not be altogether fair to judge the Nazi party by the conduct of its representatives in Parliament, as it also contained good elements. Its leaders were, of course, deplorable.

4. General Hammerstein went on to say that 'the German sword would never be thrown into the scales' except for the purpose of maintaining order in Germany itself. The parties of order in Germany and moderate opinion generally had been under the absolute necessity of inducing President Hindenburg to stand again. It was not a question of sentiment nor of using the advanced age of the President in order to appeal to the chivalrous feelings of the nation. The President was an asset, and his supporters had not scrupled to use this asset and to throw the person of the field-marshal into the contest for the presidency. It was, in fact, a case of Hindenburg *versus* the potential forces of disorder in Germany. General Hammerstein said that he was satisfied that he had the army well in hand. His only regret was that the Government of the Reich did not also, in present circumstances, control the police in the different Federal States. But they would be able to do this if

the Government found it necessary to rule in virtue of the emergency paragraph of the Constitution.

5. General Hammerstein remarked that the Germans were, on the whole, a disciplined people. They had proved this by their attitude during the bank crisis last year, and by the manner in which they had accepted the various restrictions caused by that crisis, as well as the provisions of the emergency decrees. But the German nation would not stand for a dictatorship, and the utmost the Government of the Reich could do in a crisis would be to rule the country in virtue of the above-mentioned paragraph of the Constitution. He then paid a tribute to Dr. Brüning, who, in his opinion, was head and shoulders above any other statesman in the country. He failed to see who could replace Dr. Brüning.

6. Turning to the presidential election, General Hammerstein expressed the view that, whilst President Hindenburg might not get an absolute majority of votes at the first ballot, he was certain of re-election at the second ballot. I am told, however, that General Schleicher, who may be described as the *eminence grise* of the Reichswehr Ministry, and who keeps in touch with all parties, is not so sure of President Hindenburg's final success, and considers that the struggle will be a very close one. General Hammerstein said that it was absurd to compare Hitler with Mussolini. Hitler was in reality a very mediocre personality. The general closed his remarks by expressing his disgust with the greater proportion of the German press, which, he said, was as sensational as it was unreliable. As an instance of what he meant he referred to the attitude of the German papers in the Sino-Japanese conflict. They implicitly swallowed the Chinese accounts of the fighting at Shanghai, and he knew for a fact that this had led to a boycott of German goods in Japan. The 'Deutsche Allgemeine Zeitung' had, in fact, been christened the 'Chinesische Allgemeine Zeitung.'

7. The campaign for the presidential election is now in full swing, and there is, of course, general and varied speculation as to its outcome. I should not care to commit myself to any forecast of the way matters will go, but will confine myself to quoting the estimate, as given to me, of the number of votes which the three candidates, who are opposing the President, are thought likely to obtain. Thus, the view has been expressed to me by competent authorities that Hitler may get anything from 9 to 12 million votes, the Communist candidate, Thälmann, from 4 to 6 millions, and Düsternberg, the Stahlhelm and Nationalist candidate, perhaps 2 millions. Some 42 million persons are, I am informed, entitled to vote, but it is not expected that more than perhaps 36 millions will go to the poll, in which case President Hindenburg would have to poll a fraction over 18 million votes. Assuming that the three Opposition candidates poll the maximum figures indicated above, the field-marshal could not get an absolute majority at the first ballot.

8. Various considerations have to be borne in mind in connexion with the campaign for the presidential election. Thus, although East Prussia went overwhelmingly German Nationalist at the last Reichstag elections, there is every likelihood of a big vote in that province for Hindenburg, who is always

remembered as the victor of Tannenberg and the saviour of East Prussia from the Russian danger. The women are also coming out strongly in favour of Hindenburg, and this is an important development. On the other hand, Hitler's name is bound to make the strongest appeal to his partisans, for to them it means far more than the National Socialist programme, whatever that may be. The National Socialist party will see to it that it brings every possible supporter to the poll, and the party affects absolute confidence with regard to the result. But the Nazi efforts will call forth corresponding energy on the part of Hindenburg's supporters, who will be induced to mobilise all the uncertain forces which may determine the issue of the election.

9. The Social Democratic leaders have shown great political acumen and personal courage in plumping straight away for Hindenburg, instead of putting up a candidate of their own at the first ballot. But it is necessary to take into account that it will be difficult for a section of their more extreme followers to vote for a man who has never made any concealment of his conservative sympathies. Whilst that section may not vote for the Communist candidate, it may abstain from going to the poll. By stating in the Reichstag that Hindenburg had sided with the Social Democrats, Goebbels played straight into the hands of the Social Democratic leaders. An unknown and incalculable factor in the elections will be the attitude of the German youth. A generation has almost grown up since the war. That generation has, on the whole, only known hard times, and it does not follow that it will remember the past services of, nor be imbued with respect for, the person and prestige of the octogenarian field-marshal.

I have, &c.

HORACE RUMBOLD

No. 96

Sir H. Rumbold (Berlin) to Sir J. Simon (Received March 18)

No. 197 [C 2134/235/18]

Sir,

BERLIN, March 16, 1932

With reference to my telegram No. 62¹ of the 14th March, I have the honour to report that the final figures of the presidential election do not differ materially from those contained in that telegram. President von Hindenburg failed, by less than 200,000 votes, to obtain an absolute majority and a second ballot has, therefore, become necessary. It was thought for a moment that Hitler and Hugenberg would see the futility of further efforts and abstain from a fresh trial of strength. Hitler, however, decided to force Hugenberg's hand, and, by proclaiming his intention to stand a second time, he put an end to any discussion about a joint candidature. It was known that Hugenberg was toying with the idea of putting a princely candidate into the field for the second ballot in order to embarrass the field-marshal. Hitler's sudden decision left him no choice and the ex-Emperor for that matter was said to be strongly opposed to the idea. Hugenberg then came forward with the

naïve suggestion that 'in order to spare the country another four weeks of political uproar, the Reichstag should adopt the Chancellor's original suggestion and prolong the President's term by a two-thirds vote'. In return the Chancellor should dissolve the Reichstag. The Government have naturally ignored this proposal and, indeed, it is not clear how the dissolution of the Reichstag and the resultant general election would save the country from further political turmoil.

2. I am informed on good authority that, with the exception of Hugenberg, the Nationalist and Stahlhelm leaders are depressed by their defeat. Herr Hitler, for his part, received the results with an outbreak of anger and vented his wrath on his immediate entourage, holding them to be responsible for a decision which he, in the first instance, had felt instinctively to be unwise. Having proclaimed that there was no such word as defeat in the National Socialist vocabulary and knowing that a truce must inevitably lead to loss of ground, he decided without much reflection to try his fortune a second time. He reckons that Dürer's 2½ million followers will vote for him, bringing his poll up to 14 millions, and that over-confidence will rob Hindenburg of some of his supporters. 'It must be possible', he writes in his manifesto of the 13th March, 'to tear another 2½ millions from the unnatural Hindenburg coalition and so encompass the final defeat of the system'.

3. The system has, however, defeated him very definitely for the time being. It is difficult within the compass of a despatch to give any idea of the struggle which has taken place between the two opposing forces during the last three weeks. The struggle was avowedly between the 'system' as represented by Hindenburg and Brüning and the 'experiment', if I may so term it, as represented by Hitler. If the Stahlhelm and other Nationalists are to be counted as supporting him the country has decided against him by 23 million votes to 14 million. The Communists, as usual, confused the issue by casting their 5 million votes for their own candidate. Hitler's recent assertion that he was supported by 15 millions in the State of Prussia alone is proved to be baseless. Out of 37½ million votes cast on Sunday, less than 11½ were cast for him, despite the fact that there are over six millions of unemployed workers who, with their four millions of dependants, might be expected to grasp at any straw and swallow any promises. It is true that his candidature was clumsily handled and that he only took the plunge reluctantly when his followers forced him to do so. But once the die was cast he appealed to the country by every device that human ingenuity could contrive, and he actually increased his poll from the 6½ millions which he received in September of 1930 to nearly 11½ millions. He now controls almost exactly 30 per cent. of the electorate. This would be satisfactory to him were it not that he had worked up to a higher figure, namely 36 per cent., in local elections in different federal States last autumn. In Hamburg his poll fell from 205,000 to 200,000 despite the indefatigable efforts of his followers and despite their conviction that they had succeeded at last in capturing the masses in that city. In Hesse his poll fell from 291,000 to 280,000, so that his enemies are now drawing the conclusion that the tide, if not ebbing, is no longer flowing. They explain his

accession of strength since 1930 by pointing out that 2½ millions of new voters have been added to the register, and that another 2½ million represent recruits from the different camps to the right of the Centre party.

4. A glance at the electoral map shows that Hitlerism has moved from the south and west of Germany to the north and east. Its stronghold is no longer Bavaria, but the country east of the Elbe, where it has usurped the rôle of orthodox German nationalism. To the west of the Elbe Hindenburg, in almost every constituency, obtained a clear majority of all the votes cast. Bavaria, the Rhineland, Westphalia and Hesse, all Centre strongholds, voted solidly for him. In only three constituencies, Pomerania, Schleswig-Holstein and Chemnitz, did Hitler register more votes than Hindenburg, as the attached tables will show.¹ In Chemnitz chronic unemployment caused the middle classes to enter the Hitler camp, and in Pomerania and Schleswig-Holstein agricultural distress has been particularly severe. East Prussia voted strongly for Hitler, despite the benefits to that province from the Hindenburg programme of agricultural relief. The victor of Tannenberg did not, in fact, obtain half the votes cast in his own stronghold.

4A. The Nationalist-Stahlhelm candidate, Dusterberg, obtained much the same results as the Hugenberg Nationalists in the election of 1930. So far from being able, as Hugenberg hoped, to turn the scales in favour of either candidate at the second ballot, the Nationalist party is shown to be a negligible factor. According to the press the Stahlhelm organisation has decided that it will not intervene during the second ballot, and that its followers will be free to vote as they deem fit.

5. The Communist poll of 5 millions is less than might have been expected on the basis of recent elections. It is difficult to say whether some Communists abstained from voting out of fear of a Hitlerite victory at the first ballot—which was held in many quarters to be not unlikely—or because they realised that theirs was a forlorn hope. The leaders had, as usual, applied to Moscow for instructions and were summarily told to put up a candidate and vote regardless of the consequences.

6. Politicians of long standing declare that no election before or after the war aroused so much feeling throughout the country as the election of last Sunday. The Hitlerite organisation was remarkable. With the enthusiasm of youth the younger generation left no stone unturned in the effort to secure victory. Every village and hamlet in the remotest parts of the country was canvassed diligently, but it is possible that the attempt to impress the masses by a display of confidence defeated itself. The National Socialist press claimed that Hitler was to all intents and purposes President of the Reich from the date on which his candidature was announced. He himself professed to share the same view. His first action, he declared, would be to summon Dr. Brüning on the 14th March and dismiss him in three words. He would then dissolve the Reichstag and proceed to a reckoning with his enemies. No pardon was to be expected. He made such a parade of confidence that he alarmed his enemies and forced them to redouble their efforts. The Centre

¹ Not printed.

party and the Social Democrats became aroused, and threw themselves into the contest heart and soul. There is a tendency to reproach the Centre, and particularly the Chancellor himself, with failure to appreciate the gravity of the Hitler challenge at an earlier date. It may be that the Chancellor allowed himself to become too immersed in the manifold problems facing him, and that, influenced by intermediaries, such as General Schleicher, he forgot that if Hitler were weak his entourage would be the first to exploit this weakness and prevent him from accepting a sensible compromise, which is what actually happened. When the Chancellor's offer to avoid an election was rejected by Hitler's more rabid supporters, Dr. Brüning realised the true state of affairs and proceeded at once to take energetic action, addressing meetings in Breslau, Düsseldorf and Berlin with great vigour and success.

7. Hitler's raucous campaign against the Jews reduced that small but highly influential community to a state bordering on panic. His success at the election would have presaged his victory in Prussia, and this would have been the signal for the exodus of many thousands of Israelites from all parts of Germany. It is reasonable to assume that the ample funds at the disposal of the Hindenburg Committee were, in part, forthcoming from the Jewish community. Their traditional weapons against oppression, their intelligence and their wealth, were employed against the National Socialists, and their friends abroad, and especially in America, came generously to their help.

8. The temporary alliance of so many discordant parties lent a peculiar interest to the campaign. Social Democrats and Conservatives, the Catholic and the Evangelical Church found themselves on the same platform. Resources were pooled and the best speakers were overworked in the common cause. The Democrats, Centre and Socialists formed an eleventh-hour organisation known as the 'Eiserne Front', which did useful work in the country districts. Despite their combined resources, the fight proved strenuous. The fact that everywhere as a general rule the forces of youth were arrayed against the riper generation, served to make the task of the latter more difficult. But the imposing figure of the field-marshal awakened sympathies and loyalties irrespective of party allegiance, such as no other personality in Germany to-day could have done.

9. To a foreign observer Hitler would appear to have made a mistake in directing the brunt of his attack and the main torrent of his eloquence, or rather abuse, against the Social Democrats. The result has been to strengthen the opposition of the Trade Unions and keep every loophole to Nazi propaganda closed. Hitlerism has so far failed to effect the slightest breach in the organisation of German labour. Were he to change his tune and approach the working masses with more guile, and appeal to them with the sentimentality which has proved so effective with the other parties, he might be more successful. As it is, a solid block of 14 millions of Communists and Socialists, flanked by the impervious 5 millions of the Catholic Centre, bar his road to power, and it looks as if he will only command at best a powerful but discordant minority, capable of obstruction but incapable of constructive work.

10. The President has announced his readiness to stand as candidate for the second ballot on the 10th April, and the Prussian Government have announced that elections will be held in Prussia on the 24th April. The political struggle will, therefore, be continued until that date, and it is not to be expected that either side will relax its efforts. The National Socialist cause can only flourish provided its supporters remain incessantly active. Hitler himself seems to be a peculiar mixture of practical commonsense, quixotic sentimentality and childish naïveté. On the eve of the Munich *coup d'État* in 1923, when drinking with his boon companions in the Rathauskeller, he drew his revolver and emptied it with a magnificent gesture into the ceiling. To-morrow, he said, would see the dawn of the Third Empire or the sun would shine on his dead body. The *dénouement* was not so heroic. The sun shone on the dead bodies of some of his followers, but Hitler himself left Munich very sensibly by motor car and spared himself for another day. He will not be discouraged unduly by his defeat on this occasion. The policy of the party is to see to it that the tension is never relaxed. The drum must be constantly beaten. Germany must not be allowed to doze. The party can only exist by fighting and the attack on the 'system' must go on. Germany must awake.

11. The figure of participation in the election amounted to almost 85 per cent., so that no party can have any forces in reserve. The municipal areas in many cases polled 95 per cent. of the register, the sick being brought from the hospital or the ballot boxes being brought to the bedsides. The bitterness of the struggle and spitefulness with which President von Hindenburg was opposed by the Nazi headquarters can be gauged from an isolated instance. In Bavaria the Brown House made a special point of capturing the little village of Dietramszell, to which the President is in the habit of resorting for his summer holiday. The village was canvassed so thoroughly that Hitler obtained 228 votes as against 157 for the field-marshal. Some of the best speakers of the Nazi party were ordered to address the villagers in order that this childish affront might be successful. In East Prussia the President's death from apoplexy was reported at Nazi meetings, and generally all sorts of childish lies and calumnies were circulated about him.

12. The prospects of the Left parties at the Prussian elections have no doubt been improved by Hitler's defeat, but the awkward fact must be faced that, on the basis of the latest figures, in the future the Reichstag, the Prussian Landtag and many other parliamentary institutions in Germany will contain a solid block of National Socialists amounting to a third of the Assembly, and solely intent upon obstruction and opposition. The business of government will become more difficult at an early date, not only in Prussia but in the other Federal States where elections are pending. In most cases the Opposition parties, Nazis and Communists, though incapable of coalition among themselves and, therefore, of forming a Government, will be in a position to oust the Government of the day or paralyse the parliamentary machine. At all events the elections in the Federal States will throw light on the actual position, and that in itself is a desirable development. Owing to the fact that

Hitler lost ground in the west and south, his percentage in Prussia must be somewhat higher than the average figure for the country as a whole. Whether this will be noticeable at the coming Prussian elections is difficult to say. The second ballot, entailing a second defeat, may discourage his followers and so improve the prospects of the Left.

13. The final official figures are stated to be:—

	Votes
Hindenburg	18,654,244
Düsterberg	2,558,813
Hitler	11,341,119
Thälmann	4,982,870
Winter	111,492
Spoiled	8,661

These figures would give—

	Percentage
Hindenburg	49.54
Hitler	30.12
Thälmann	13.23
Düsterberg	6.80
Winter31

In Berlin Hindenburg obtained 45 per cent. as against Hitler's 23 per cent. and Thälmann's 28.7 per cent.

I have, &c.

HORACE RUMBOLD

No. 97

Sir H. Rumbold (Berlin) to Sir J. Simon (Received March 29)

No. 218 [C 2374/235/18]

Sir,

BERLIN, *March 24, 1932*

With reference to my despatch No. 217¹ of the 23rd March, I have the honour to report that the result of the first ballot for the presidential election taken in conjunction with the police search instituted by the Prussian authorities, appear to have shaken the confidence of the National Socialist leaders to some extent. Members of my staff who have had the opportunity of meeting some of the party leaders in Berlin, have noted a certain nervousness which did not exist before the first ballot, and which may or may not be shared by Hitler himself and his immediate entourage at the Munich headquarters. The Berlin leaders seem to regard the raids of the Prussian police

¹ Not printed. This despatch reported that the Prussian authorities had carried out on March 17 a search of the premises used by the National Socialist organization in Prussia in order to ascertain whether there was any foundation for the rumours that the National Socialists were planning a subversive movement.

as a sign that the Prussian Government are anxious that the electorate should believe that a 'Putsch' was intended, and that the vigilance and energy of the Government saved the nation from violence and bloodshed. The Prussian authorities have plenty of time before the Prussian elections to sift the confiscated documents and present the public with such evidence as may best suit their purpose.

2. In conversation the Berlin leaders do not deny that Hitler's candidature for the presidency was largely tactical, and based on the consideration that the movement had reached a stage where it could not afford to stand still. Neither Hitler nor any of his immediate entourage expected a victory, but the Nazis could not stand aside and allow the other parties, particularly the Communists, to conduct an active campaign throughout the country. They assert that had they done so, the Communists would have had a free hand, not only to pick up all the spare votes of the discontented, but even to win back some of the discontented votes from the Nazis. It was, therefore, essential for them to consolidate their gains under Hitler's leadership, so as to be ready for the Prussian elections.

3. They admit that they were taken aback by the solidarity with which the Social Democrats voted for Hindenburg, and they claim that numbers of Communists voted for Hindenburg through fear of Hitler. Accordingly they expect that the Communists will poll a heavier vote at the coming elections in Prussia than they obtained at the first presidential ballot. They do not conceal the fact that they are now having difficulty in preventing their more radical supporters from breaking away to the Communists. After Hitler gave his interview to the foreign press last October, the curve of the increase in the movement went sharply down, a large influx of respectable voters from the country districts coming into the movement, while a larger number of the less responsible members left it. This process, they admit, is continuing.

4. It is asserted in many quarters that the party funds are now depleted. Should this be the case a further loss of support on the left wing is to be expected, for the men who form the Storm Detachments, fanatical though they may be for the moment, cannot continue to pay out of their own pockets for the cost of transport and quarters which were previously defrayed by the party leaders. According to American journalists, one source of income, namely, the copyright of Hitler's utterances, has no longer any serious market in America, and newspapers are not prepared to expend money in the purchase of advance copies of Hitler's speeches. The most reliable source of revenue at the moment would appear to be box office receipts. So long as Hitler or Goebbels can fill every available seat in the largest assembly halls—and they still can—the party can count on a modest supply of ready money.

I have, &c.

(For the Ambassador),

B. C. NEWTON

Sir H. Rumbold (Berlin) to Sir J. Simon (Received April 15)

No. 255 [C 3030/235/18]

Sir,

BERLIN, April 13, 1932

With reference to my telegram No. 79¹ of the 11th April, I have the honour to enclose herein a table² showing the results of the second ballot for the presidency in the thirty-five constituencies of which the Reich is composed. The struggle was, if anything, more intense than on the first occasion, the figure of participation (83 per cent.) being only 3 per cent. below that of the first ballot. When it is borne in mind that Hindenburg's victory at the second ballot was so certain that two large parties, the Nationalists and Communists, were no longer directly interested, the determination shown by the two opposing forces of Hindenburg and Hitler can be appreciated. The actual campaign only lasted a week, but the pressure was maintained throughout at the highest pitch. The Chancellor and all the party leaders in the Hindenburg camp left no stone unturned to ensure victory, visiting all parts of the country, particularly the areas where opposition was keenest. Hitler, for his part, made a whirlwind tour of the country, travelling by aeroplane, often at great risk in stormy weather, and giving proof of extraordinary resolution.

2. The Stahlhelm organisation took no official interest in the election, and its votes might have been cast evenly for both sides had not the ex-Crown Prince publicly announced his intention on the 1st April of voting for Hitler. It has always been understood that the ex-Crown Prince was allowed to return to Germany in the autumn of 1923 on the distinct understanding that he was to abstain from political activity. That he furnished a definite pledge to the Government of the day is evident from a letter quoted in the memoirs of the late Dr. Stresemann. The Left parties now accuse him of breaking his word, and, though the text of his undertaking to Dr. Stresemann is not available, he seems to have been guilty of a deliberate breach of faith. I am privately informed that the ex-Emperor has had great difficulty in preventing him and his brothers from playing a very prominent part in the campaign, and there is every reason to believe that the Harzburg parties were prepared to agree on a common candidate provided one of the ex-Emperor's sons, preferably the ex-Crown Prince, were selected. To this the ex-Emperor was resolutely opposed, and his messages from Doorn were vigorously worded.

3. Hitler's campaign on this occasion was directed mainly to the working class. It was less abusive and there was less boasting. The tone of his pamphlets was milder. His posters and pamphlets showed him in a paternal guise, patting the heads of children, stooping over perambulators and accepting bouquets. His party was, he declared, not at all a reactionary party. His followers were fathers and mothers of families similar in all respects to Socialist fathers and mothers. In short, he appealed for a fair hearing from the Left, and sought to refute the accepted Social Democratic idea that he was a

¹ Not printed.

² Not printed.

kind of super-gangster surrounded by a staff of hooligans in S.S. uniform. Had Hitler in his manifesto of the 13th March not made the mistake of claiming the 2½ million Nationalists as his own at the second ballot, and had he not requested his followers to recruit another 2½ million followers from the Centre Socialist ranks (see paragraph 2 of my despatch No. 197³ of the 16th March), he could claim to have won a greater victory on the present occasion. As it is, he has only increased his poll by the 2 millions on which he said that he was definitely counting. Even these votes were not all contributed by Hugenberg, a very large proportion, as the figures show, being drawn from the Communist camp.

4. Generally speaking, the figures on this occasion are less interesting than those of the first ballot, in which the true strength of the different parties was more clearly revealed. Whether Hitler polled his full strength at the second ballot or whether his defeat at the first ballot cost him votes will never be definitely known. His vote was heavily adulterated. That both Communists and Nationalists supported him to a varying degree in every constituency is clear from the figures. Thus, in Mecklenburg, where the Communist vote is negligible, Hitler increased his poll by 50,000, who must have been supporters of Düsternburg on the 13th March. Again, in Chemnitz he increased his poll by 70,000. As there are only 55,000 Nationalists in the constituency, the residue must have come from the Communists. The figures for the local districts in Berlin, where the number of abstentions was trifling, show beyond doubt that the Communists supported him in large numbers, while in Frankfurt he increased his poll by 16,000, of whom only 5,600 could have been Nationalists. Hitler strongly resents the suggestion that there is any affinity between the doctrines of Communism and National Socialism, but the figures at the second ballot prove that there is a certain amount of flux and reflux between the two parties. The more extreme Communist leaders in Saxony were in favour of voting for Hitler on the principle that the greater the Nazi vote, the greater would be the unrest in Germany and in Europe. But young Communists declare that Moscow instructions were to vote either for Thälmann or Hindenburg. The elections in Prussia particularly and in several other States on the 24th April will show more precisely the strength of the different parties and permit of a truer appreciation of the position.

5. The President on his side increased his poll by 700,000 votes, or 3·4 per cent., and obtained 53 per cent. of the votes cast. He obtained two and a quarter million votes more than his combined adversaries, despite the fact that over-confidence, resulting in slackness, cost him a number of votes in the western constituencies, where his following was greatest. On the basis of these figures, Dr. Brüning can claim that the present Reichstag is not that travesty of popular representation which the Hitlerites profess it to be. Hindenburg's supporters, who roughly correspond to the Chancellor's parliamentary following, are shown to outnumber the Opposition parties by more than 2 millions.

³ No. 96.

6. To draw any conclusions from the presidential election for the coming election in Prussia would not be safe. Personalities will play a smaller part in Prussia than party programmes. The Prussian campaign has already commenced. The issues are different, the parties are differently grouped, and the whole basis of the struggle is changed. From the standpoint of the existing Prussian Government, the fact that Hitler has lost ground in the Rhineland is more than compensated by his gains in the east. The combined Opposition parties—Communists, Hitlerites and German Nationalists—though incapable of forming a coalition, should, on the basis of the available figures, approximate closely in strength to the combined moderate forces in Prussia. Whether a workable coalition can be constructed in that State is the question which is now exercising the minds of responsible politicians here.

7. The Nationalist press professes to take no interest in the results of the second presidential ballot. Hindenburg's victory, it maintains, was a foregone conclusion, and Nationalists must now devote themselves to their task in Prussia. Certain organs, like the Agrarian 'Tageszeitung', even congratulate the President and declare that he has always been impartial in his conduct of office. The Centre press regards the presidential victory as a vote of confidence in Dr. Brüning. 'Germania', the Chancellor's mouthpiece, believes that Hitler received no new votes on his own account at either ballot and that his party reached the end of its tether last autumn. The Social Democratic press is obviously uneasy about the prospects in Prussia, but 'Vorwärts' points out that the combined Right parties, which were able to muster 14·7 million votes at the presidential election in 1925 and nearly the same number at the Reichstag elections in 1930, scarcely reached 14 millions at the first ballot in March. It also finds consolation in the obvious cleavage between the Hitlerites and the followers of Herr Hugenberg, and hopes that the lack of co-operation between the different Opposition parties in the new Prussian Landtag will facilitate the formation of a Left-Centre coalition with some support from the Right; in other words, a coalition similar to that which has proved possible so often in the Reichstag. The Democratic press is satisfied that the total number of votes cast by the enemies of the republic on the 10th April was smaller than the total of the 13th March. The Left parties as a whole are gratified that Hindenburg's victory in the Reich makes it impossible, even in the event of a Nazi-Nationalist-Communist victory in Prussia, to alter the constitutional method of government in that State. Parliamentary methods will, it is felt, have to be observed whatever the issue of the struggle may be, and Prussia, so long as the President has control of the armed forces of the Reich, cannot become a victim of Hitlerite terrorism in the same way as Brunswick.

I have, &c.

HORACE RUMBOLD

Sir H. Rumbold (Berlin) to Sir J. Simon (Received April 15)

No. 258 [C 3039/235/18]

Sir,

BERLIN, April 13, 1932

Now that the Presidential election is over public attention is concentrating on the forthcoming elections for the Prussian Landtag on the 24th instant. Whilst on the same day there will be similar elections in Bavaria, Württemberg and Anhalt, it is obvious that those in Prussia are of outstanding importance.

2. As I have pointed out in my despatch No. 255¹ of to-day's date, the basis for the forthcoming elections to the Prussian Landtag is quite different to that for the Presidency, which amounted to a contest between two candidates, in which many members of certain political parties voted regardless of their ordinary convictions. I discussed the political situation to-day with the Prussian Secretary of State and asked him whether he could give me some forecast of the probable strength in which the various parties would be returned to the Prussian Landtag. I may here mention that Herr Weismann had made a remarkably accurate estimate of the probable results of the Presidential election and I think that his forecast in the case of the Prussian Landtag is worth reporting.

3. He estimates that the National Socialists will obtain 140 seats, the Nationalists 40, the Social Democrats 105, the Centre 65, the Communists 70 and the other parties 30. It will be seen from the foregoing that the Right wing will number 180 or, if they can secure the support of the members of the other parties, 210, whilst the Social Democrats and Centre, who constitute the present coalition governing Prussia, will number 170. 210 votes would not, however, constitute an absolute majority in the Landtag and the Prussian Secretary of State anticipates that there may be something in the nature of a stalemate, which would enable Dr. Braun, the present Prime Minister, to carry on a Government of affairs for as much as two years.

4. Herr Weismann confirmed what I had already heard from another source, that neither the President nor the Chancellor was altogether pleased with the result of the second ballot. This had shown that Hitler was still able to enlist the support of the disgruntled and youthful elements in the State and that his movement was still making progress. Indeed, even allowing for the fact that a large number of Communists and members of the Stahlhelm as well as Nationalists who voted for him at the second ballot, will not do so at the Prussian elections, he must still be held to have polled some 34 per cent. out of the votes cast, which should normally give him something like 153 seats in the Prussian Landtag. Meanwhile, the Government have, as reported in my Saving telegram No. 13² of April 14, dissolved Hitler's Storm Troops and Defence Squads throughout the Reich.

5. During the last two or three days I have seen all my principal colleagues

¹ No. 98.

² Not printed.

and discussed the situation with them. I found that they had an impression that the Chancellor would perhaps change the composition of his Government after the Landtag elections, but I have been unable to get confirmation of this. General Groener has denied any such intention, and the utmost that may be expected in that direction would be the appointment of a Minister for Foreign Affairs and of a Minister of the Interior to take over from General Groener. The name of Herr Nadolny has been mentioned in connection with the former office, but I am assured that he is not *persona grata* with the Chancellor. Moreover, the appointment of a Minister for Foreign Affairs would probably mean the departure of Herr von Bülow, who has practically acted in that capacity for a considerable time.

6. The Chancellor is, I understand, confident that he can hold the internal political situation and counts on remaining in office for some considerable time to come. General Groener, with whom I dined two nights ago, told me that the Government had the situation well in hand and that 'they would be able to control Hitler himself'. As it subsequently transpired this remark was made to me on the very day on which the Cabinet had decided to dissolve Hitler's storm troops. I took the opportunity of asking General Groener what impression he had formed of Hitler when he had received him some little time ago. He replied that he had sat with him in the very room in which we were speaking and had formed the impression that Hitler was a visionary, but quite a decent sort of man ('anständiger Mensch'). He had been able to bring Hitler down to earth in the course of the interview, but he had only remained there for one minute and had then been in the clouds again. Hitler's actions and speeches subsequent to the above mentioned interview had caused General Groener to modify his opinion of Hitler in a sense unfavourable to the latter.

7. A copy of this despatch has been forwarded to Geneva.

I have, &c.

HORACE RUMBOLD

No. 100

Sir H. Rumbold (Berlin) to Sir J. Simon (Received April 20)

No. 268 [C 3168/235/18]

Sir,

BERLIN, April 16, 1932

With reference to my telegram No. 14, Saving,¹ of the 14th April, I have the honour to enclose herein a translation of the presidential decree² dissolving the National Socialist militant organisations as well as a translation of the explanatory statement which accompanied the decree.

¹ Not printed. This telegram referred to the action of the German Government described above.

² Not printed. Clause 1 of this decree dissolved all 'quasi-military organisations' of the National Socialist Party, and in particular the S.A. and S.S., 'with all the staffs and other organisations belonging thereto, including the S.A. observers, the S.A. reserves, motor, naval, and cavalry detachments, flying, mechanised, and medical corps, officers' schools, S.A. barracks and equipment depots'.

2. As soon as the decree was signed the police forces were set in movement in almost all the Federal States in accordance with a prearranged plan on the afternoon of the 13th April. The Government of Brunswick, after a little delay, followed the general rule, and by midday on the following day the premises occupied by the different National Socialist organisations in all parts of the Reich were evacuated, the cadres disbanded and the equipment, so far as it was of a military nature, sequestered. No active resistance was offered, and in most cases the leaders were found to have decamped some time before the raids were carried out. The university students at Göttingen made a show of resistance, and a lorry load of police had to use their truncheons. In Breslau a strong force of police was drafted in from the adjoining towns, and considerable violence had to be shown before the S.A. detachments dispersed. As Breslau is suffering from acute distress the men naturally resented expulsion from their quarters, and also the loss of the warm midday meal, which was so welcome during the winter months. The municipal authorities are now doing their best to cope with the additional distress caused by the dispersal of the S.A. men. German beer-gardens have, as a rule, a commodious hall or barn in which the public can take refuge during bad weather. It was usually in buildings of this kind that the S.S. and S.A. men were quartered, as owing to the falling off in the consumption of drink, beer halls could be hired for a trifling sum, especially during the winter months.

3. So far as the large towns are concerned, the task of the police was uniformly successful. Perquisitions were carried out at the Brown House in Munich without any disorder. In Darmstadt the police seized an aeroplane, some motor transport, military knapsacks, and field telephone apparatus. Otherwise nothing of value seems to have been discovered.

4. In the country districts, on the other hand, the task of the police will be naturally more difficult. Scattered throughout the villages in twos and threes the local police are bound to find the task of rounding up the country rowdies difficult, more especially as the landowners east of the Elbe are largely in sympathy with them. For this reason doubts have been expressed as to whether the dissolution of the detachments in the country districts can really be carried out.

5. The National Socialist leader, Hitler, has aroused the indignation of the Left press by stating in interviews with American journalists that the dissolution of the storm detachments was ordained by the Chancellor at the request of the French Government. Newspapers this morning publish a Havas telegram from Paris flatly denying Hitler's assertion on behalf of the French Government.

6. In a message to his followers, Hitler to-day urges them to refrain from resistance to constituted authority, on the ground that any such resistance might be seized upon as an excuse for postponing the elections in Prussia, and so delaying the inevitable triumph of the National Socialist movement. Press opinions appear to differ as to the possible effect of the emergency decree on the Prussian elections. Hitler himself has already embarked upon his

electoral campaign, and has announced that he will appeal to the Supreme Court for a declaration that the emergency decree is illegal.

7. The most important consequence of the Government's action is the decision of the Reichsbanner to dissolve certain militant formations belonging to that body. The leaders of the Reichsbanner issued a manifesto to the local organisations yesterday stating that the dispersal of the National Socialist forces made it unnecessary henceforth for the Reichsbanner to maintain their state of alarm. Accordingly all the special measures of protection recently instituted are to cease as from the 15th April and special organisations will be disbanded. With the victory of President von Hindenburg the Constitution of Weimar is safeguarded, concludes the manifesto, and the danger of civil war has become more remote. This step is obviously a good tactical move, designed to meet the criticism of which there has been a good deal, especially in army circles, that the Government action was grossly one-sided and that if they were going to dissolve the Nazi detachments they must also abolish all similar organisations, such as the Reichsbanner.

I have, &c.

HORACE RUMBOLD

ENCLOSURE IN NO. 100.

(Translation.)

The storm detachments (S.A.) and defence squads (S.S.) and other organisations of the German National Socialist Labour party of a military nature were dissolved yesterday afternoon by an emergency decree of the President, based upon article 48 of the Constitution. The German Government unanimously recommended this measure to the President.

The dissolution of these organisations is necessary in accordance with the principles of healthy State life, if public safety and order are to be maintained, and if the authority of the State is to be safeguarded from further serious encroachments.

The above-mentioned organisations are, as is well known, formed in all externals down to the very smallest details in imitation of military formations. They represent a private army, a party army, although they are to some extent unarmed. Hundreds of thousands of men, bound to absolute obedience to commands and in part quartered in barracks, are divided up into service formations. These formations can do and act in the same manner as military or police bodies. Even without powerful weapons such formations can at any time carry out acts of violence and bring strong pressure to bear upon a part of the population.

The very fact of the existence of such a fighting organisation, which constitutes a State within the State, is a source of serious anxiety to the peaceful members of the community, who ply their trades under the protection of the laws. The State is the only one whose business it is to maintain an organised fighting force. As soon as such a force is organised privately peace and order are endangered. The peaceful members of the population cannot tolerate

such an essentially biased and partial organisation. Such a development leads logically to clashes and finally to a state of affairs similar to civil war.

In the event of such a development the State would lose the respect which it must demand for its constitutional institutions, in particular for its armed forces and its police.

Declarations of legal intentions have been made by the leaders of the dissolved organisations. But even if such declarations are meant entirely seriously, and if they are backed up by the determination to adhere to legality, it can, nevertheless, not be denied that in a lawful State the armed forces can only be organised by the constitutional organs of the State themselves. Any private force cannot, therefore, by its very nature, be a legal institution. The danger also exists that such an organisation, whose orientation, as is shown by its institutions and regulations, is directed towards an internal struggle, would one day drag the party itself into the path of illegality. The leaders of this private army must inevitably, in their efforts to act in a military manner and to achieve a special success along these lines, bring the party into conflict with the authorities of the State and its armed forces.

Apart from this, it has been established that the dissolved organisations have been guilty of numerous and onerous breaches of order and encroachments upon the rights of others. Their action has caused anxiety in wide circles of the population. The police and judicial authorities are in the act of examining extensive material. It is, however, not necessary to wait for the conclusion of their labours, in view of the fact that the dissolution of the organisations is being resorted to for political reasons of State and is entirely independent of the result of the enquiries as to whether and to what extent punishable actions have been committed by individuals.

The reason for the measure of dissolution is the preservation of the State itself. The measure of the authorities is actuated by a powerful and impartial determination on the part of the responsible statesmen to apply the same measures to the one side as to the other. It is not a question of parties or Governments. It is the German State which is at stake. No German Government can tolerate that any party should make the attempt to form a State within the State, and to create for itself forces which would place it in a position under certain circumstances to attain its objects by force. The Red Front Soldiers' League (Rote Frontkämpferbund) was dissolved in the year 1929 because it had become a danger to the maintenance of safety and order.

If the State neglects its foremost duty as defender of laws and protector of peaceful citizens, it runs the risk of falling a prey to anarchy. This serious aspect deserves at the present moment of crisis the most careful consideration. We must in the course of the next months deal with the economic crisis with active means. We must in fateful external negotiations fight for our life, our rights and our freedom. The first precondition for the success of such measures of salvation is the confidence of the German people in the stability of their relationship within the State.

The German people are placed under a free Constitution. Freedom, however, cannot prosper without order. In the interests of order, it must be made

fully clear that in Germany the State and only the State maintains law and equity with a firm hand. The German Government, in their conception of the situation, know that they are supported by the great majority of the Governments of the Federal States. The Central Government is in future resolutely determined, regardless of persons or parties, ruthlessly to prevent with all the forces of the State any attempt to build a State within the State.

The dissolution of the quasi-military organisation of the German National Socialist Labour party is to be carried through in accordance with the directions of the German Minister of the Interior without harshness. The National Socialist party itself will be left untouched by the decree. The party retains within the framework of the law the same freedom of action as all other parties enjoy.

The German Fatherland, however, stands above all parties. The first basic duty of the President and of the German Government is to serve the Fatherland.

No. 101

Sir H. Rumbold (Berlin) to Sir J. Simon (Received April 22)

No. 281 [C 3230/235/18]

BERLIN, April 20, 1932

H.M. Ambassador transmits a note from the Military Attaché dated April 19, 1932 on the attitude of the Reichswehr towards the National Socialist movement.

ENCLOSURE IN NO. 101

Colonel Thorne to Sir H. Rumbold

No. 4 [C 3230/235/18]

Sir,

BERLIN, April 19, 1932

I have the honour to forward the following report on the subject of the feeling amongst officers in the Reichswehrministerium towards the Nazi cause.

In conversation with several of the senior officers, as well as many officers of more junior rank, I found most marked disapproval of the Defence Minister's action in suppressing the S.A. and S.S. units and all their other military activities. For some time the Defence Minister has become more unpopular among the officers of the army who are inclined to look upon him as a 'traitor' to their cause; General von Hammerstein alone showing no sign of any such bias.

The officers as a whole feel that the Nazi movement is the best available means of disciplining the youth of the country, for whom no service in the army is possible and that it keeps them out of the Communist ranks; in addition it is an attractive method to the Germans as a whole of expressing their devotion to the country.

Their fear is that the official suppression will not have the effect of seriously curtailing these military activities of the Nazis but will merely drive them underground as happened in Ireland with the I.R.A. after President Cosgrave had declared that organization illegal.

I have, &c.

ANDREW THORNE

Colonel, G.S.

Military attaché

No. 102

Sir H. Rumbold (Berlin) to Sir J. Simon (Received April 22)

No. 278 [C 3227/235/18]

Sir,

BERLIN, April 20, 1932

I have the honour to submit herewith a brief review of the political situation on the eve of the important elections due to take place on the 24th April in the States of Prussia, Bavaria, Württemberg, Anhalt and Hamburg. Although foreign policy is not likely to be affected by the result of these elections, the internal policy of the Reich may be indirectly influenced by the results of the Prussian elections. The laws passed by the Reich have to be administered for the most part by the Federal States, and the attitude of Prussia, which contains two-thirds of the inhabitants of this country, cannot fail to some extent to colour the decisions of the Government of the Reich.

2. The first ballot for the presidential election demonstrated clearly what had long been suspected, namely, that the Social Democratic Weimar coalition could no longer count on retaining their majority in Prussia. For over thirteen years Prussia has been ruled without a break by a coalition of Social Democrats, Democrats and Centre, with the occasional help of the People's party. The result has been a certain continuity of policy and administration in a State where such continuity has always been a tradition. Whether the Left parties will remain entrusted with the task of government owing to the failure of the Opposition to form a workable coalition in a new Landtag remains to be seen. But it is evident that the Left parties, including the Centre, are hoping that this will be the case and that they will continue to administer Prussia after the new elections as it were by default.

3. It is practically certain that it will be impossible to form a majority coalition in the new Landtag unless the Centre decide to join the Right or the Communists decide to join the Left, both of which are highly unlikely contingencies. On the basis of the votes cast at the presidential election the National Socialists might obtain somewhat less than 140 seats, the German National party less than 40, while the remainder of the Right—the Conservatives, Peasants and People's parties—might muster less than 50 between them. The combined Right might total 224. Against these would be arrayed the Socialists with 90, the Centre with 70 and the Democrats with 10 seats. Standing aloof would be the Communists with 70 seats. It is evident, there-

fore, that at one moment the Communists and at another the Centre will occupy the key position. A minority Government seems to be the simplest solution, and in that event no really contentious measures could be passed during the life of the new Parliament. Unless the new Landtag decides to reverse the decision of the 12th April (see my despatch No. 262¹ of the 14th April) by which the Prime Minister can only be elected by a majority of all the members, a new Prime Minister cannot be chosen and a new Government cannot consequently be set up. The present Government under Herr Braun might then remain in office by default, provided the Centre had no objection.

4. If the decision of the 12th April is reversed (and this will require the help of the Communists), a relative majority will be sufficient and a Prime Minister and a Government of the Right might eventually be chosen. Unable to pass contentious measures, such a Government could only exercise influence through the administrative apparatus. A change of atmosphere would result, and, indeed, for that matter a change in the Prussian atmosphere is already noticeable. The Weimar parties are somewhat anxious about the future and do not at all relish the prospect of exchanging the present comfortable Landtag for an Assembly where the tone will be set by 130-140 Nazis. These, to judge by the nomination papers, will be a motley gathering, most of whom in the ordinary course of events would not find their way into any responsible or respectable Assembly. For this the Weimar parties have only themselves to thank. In the first flush of enthusiasm they extended the franchise to both sexes, fixing 20 years as the age at which citizens became entitled to vote. Having suffered for so many years from the system by which the lower classes were practically denied the vote in Prussia, they naturally proceeded to the opposite extreme when drawing up the Constitution of 1919. The Nazis and Communists are gainers under the present franchise.

5. Efforts are already being made by the Nationalists to pave the way for a coalition with the Nazis in Prussia as soon as the elections are over. Such a coalition presupposes a definite understanding between Hitler and Hugenberg. Hitherto, the 'National Opposition' has never represented more than a pious and one-sided hope on the part of Herr Hugenberg. The initiative came from him in the first instance, and he kept up the appearance of an alliance against all odds until the second ballot for the presidency definitely proved that it was a fiction. Hugenberg's idea of a parliamentary coalition is based on the assumption that the Hitlerites will submit to his guidance and his long political experience. This, *mutatis mutandis*, is also Hitler's idea. Both leaders are singularly uncompromising in their outlook. Hugenberg's recent speeches, while insisting that every sacrifice must be made to oust the 'system' from Prussia, call for guarantees against 'legislation based on immature ideas' and against 'measures which might interfere with Prussia's economic stability or Prussia's hegemony within the Reich'. Hugenberg has also stated that he is alarmed by the avidity with which the Hitlerites have seized on the spoils of office in Brunswick and Thuringia, and he has declared that nothing

¹ Not printed.

is to be gained by exchanging Socialist nominees for Nazi nominees in Prussia. In conversation, Nationalists frankly express fears that the Socialist side of the National Socialist movement is developing more strongly than the Nationalist side. Even if, in the face of these difficulties, a coalition can be established, it will not be a very comfortable partnership for the moderate National groups, who are also expected to join it and without whose help it would be impotent. They will find themselves cheek by jowl with a noisy, indisciplined and overbearing Nazi *bloc*, whose youth and inexperience will be a severe handicap to the leader of the coalition. Should it prove impossible to establish a coalition out of these discordant elements, the Weimar parties, in their turn, will have to do their best in a house containing nearly 200 members pledged to overthrow parliamentary government and therefore pledged to permanent obstruction.

6. Judging by recent events the Government of the Reich have definitely made up their minds that they have no desire to see a Nazi-Nationalist coalition in possession of the Prussian police force, the Prussian schools and courts of law, and the executive machinery of two-thirds of the Reich. The refusal of the Reich Government to allow Hitler to broadcast his speeches was symptomatic. They evidently took the view that inasmuch as the Nazis avowed their intention of making every use of democratic institutions for the express purpose of overthrowing those institutions, there was no reason to give them facilities. It is indeed in accord with German tradition for the Government, especially in Prussia, to handicap the Opposition parties at an election with the help of the resources of the State.

7. The decision to dissolve Hitler's storm detachments was partly due to similar considerations, though foreign policy undoubtedly played a part. The Government were well aware that the German case at the Disarmament Conference was impaired by the existence of Hitler's shadow army. They were also aware that the prospects of the Left parties at the French elections were not improved thereby. From the standpoint of internal policy, the existence of the Nazi forces was beginning to constitute a serious danger. Bavaria, having, to the annoyance both of Prussia and the Reich, fostered Hitlerism in its cradle, had now, as so often in the past, disowned the fledgling. If Bavaria carried out her intention of dissolving the Hitlerite formations, a conflict might easily ensue, in which the Rhineland and Baden would support her against North Germany. The Nazi force was, in fact, becoming a factor with which the Government had to deal whenever they took any important decision and they were getting tired of having to do so.

8. It is asserted that the Reichswehr Higher Command was opposed to the dissolution of Hitler's forces. Individual generals and staff officers have outspokenly taken the view that national enthusiasm should not be discouraged, but the more thoughtful officers must have realised that there was danger in arousing such enthusiasm prematurely, that is to say, before the Reichswehr was prepared to exploit it and before it suited the policy of the Government, and that there was even greater danger in identifying such enthusiasm with one political party. I am informed that the confiscated documents in the

possession of the authorities go to show that Hitler's forces would not be available for national defence without further ado. Letters are said to be extant showing that the Nazi leaders were only prepared to defend the frontiers when the Governments of the Reich and Prussia had been reconstituted to their liking and when the 'system' had been finally destroyed. Possibly, when General Groener realised that the Nazi army was definitely a party army for political and not national use, he decided to suppress it.

9. The Stahlhelm are naturally pleased to have the patriotic field to themselves in future. It was suggested that both the Stahlhelm and the Reichsbanner should be disbanded with the Hitlerite forces, and strong pressure is being brought to bear on the President in the case of the Reichsbanner. In a letter dated the 17th April, the President informed General Groener that he had reluctantly disbanded the Hitler storm detachments at the request of the Government of the Reich and that it was only fair that the Government should now enquire into the legality of similar organisations maintained by other political parties. By a coincidence an article appeared in the press on the same day in which General Groener, who was unaware of the presidential letter, expressed his views on this very point. The General stated that none of the existing organisations challenged the authority of the State in the same way as that of the Nazis. In a subsequent reply to the President, General Groener promised to conduct an investigation as desired.

10. It was somewhat unfortunate that the order to dissolve the Hitlerite detachments was given almost immediately after the message issued by the President to the country after his re-election, namely, the admonition to close the ranks and cease squabbling. The lack of co-ordination between the President's office, the Government of the Reich and the Government of Prussia has been responsible for similar unedifying events of late. In his message to the press, General Groener naturally denied that the action of the Government in suppressing the storm detachments was due to any but internal motives. He protested against Hitler's assertion that the Chancellor had acted under pressure from the French Government. This, he said, was absolutely unfounded. He concluded by stating that he fully appreciated the patriotic enthusiasm of the rising generation. 'The defence of the country', he wrote, 'is a matter of honour with the whole German people, and is not the privilege of any one party. I am deeply concerned with the weal of the country's youth. For a long time I have been considering the best way of dealing with the extremely difficult position of our young generation. My efforts at an early date will be directed towards concentrating the whole of Germany's youth without distinction of party into sport organisations in order to strengthen their minds and bodies and teach them to think of the good of the country.' This is strangely reminiscent of the preaching of Turnvater Jahn at the beginning of the 19th century, and is evidently a sop to those Nationalist critics who have accused the General of lack of sympathy with the Nationalist cause, as instanced by his suppression of the storm detachments.

I have, &c.

HORACE RUMBOLD

Record of a Conversation at Geneva on April 23, 1932
 [C 3430/29/32]

Present: Mr. MacDonald, Sir J. Simon, Mr. Stimson, Mr. Norman Davis, Mr. Hugh Gibson.

. . .¹ The conversation then passed to reparations and the prospects of assuaging Franco-German disagreement.² Mr. Norman Davis reported what M. Tardieu had told him of the latter's interview with Dr. Brüning. According to M. Tardieu, when he asked Dr. Brüning to express his view as to an accommodation on reparations, Dr. Brüning replied that much would depend on what was done about disarmament; on the other hand, when he sought to get the German view on disarmament, M. Tardieu was told that this again would depend on a solution being found for reparations. Dr. Brüning had, however, said, as regards reparations, that Germany simply could not pay and was bound to demand a release. Mr. Stimson pointedly observed that he hoped Germany did not suppose that this was a view which would be approved by America; Germany had wiped out her internal debt and re-equipped her factories. He appreciated the point of view of the City of London, which was concerned about the repayment of loans, but he seemed to indicate that a modification, rather than a cancellation, of reparations was the treatment which the American Administration would think the more reasonable. The Prime Minister explained the British point of view as resting not on the special interests of the City, but on the need for avoiding uncertainty in the future, and so creating the confidence which was necessary for the recovery of the world. Britain's position was that world recovery could only be impeded if there had to be a continued prospect of transfer of large sums not in the course of regular trade.

It was agreed that a solution of the large problems which are concentrated in the Franco-German difference was not likely to be reached by discussions in which only France and Germany took part. Could not the opportunity be taken advantage of which was presented by the presence of Mr. Stimson and Mr. MacDonald at Geneva? The plan favoured is a series of informal

¹ The first three paragraphs of this conversation dealt with the question of disarmament and are printed below, No. 240.

² Before this meeting Mr. MacDonald had discussed with Dr. Brüning and M. Tardieu the policy to be adopted at the forthcoming conference at Lausanne. No record of these discussions appears to have been received by the Foreign Office. There is a record in the Foreign Office archives of an informal meeting of the British representatives at Geneva earlier on April 23. Mr. MacDonald told this meeting that Dr. Brüning had said, privately, that Germany 'could not pay any more reparations', but that 'he (Dr. Brüning) would be accommodating towards any face-saving scheme such as that Germany should at some time pay some further capital charge. This would involve borrowing the money to pay it, and the sum would need to be small; it could, moreover, not be an annual obligation'. M. Tardieu, on the other hand, had told Mr. MacDonald that 'he thought that Germany could pay, not immediately, but in some years' time. M. Tardieu therefore favoured suspension, either for a fixed period or for a period to be determined by experts'.

conversations, not involving negotiations, but only an exchange of views, in which Dr. Brüning, M. Tardieu, Mr. Stimson and Mr. MacDonald would take part, each with their principal colleague now at Geneva. It was believed that M. Tardieu would be back at Geneva on Tuesday for a day or two and Dr. Brüning was returning, after voting in the Prussian elections, on Sunday night. It was therefore arranged that the first meeting should take place, if possible, at Besinges on Tuesday morning next.³

(The Prime Minister, after returning from this interview, decided that Signor Grandi should be informed that the meeting would be taking place and that all that was involved was an exchange of views which was primarily designed to bring France and Germany nearer, but which would not affect Italy's interests. He should not be invited to be present as this would limit the freedom with which the French views would be expressed.)

³ It was subsequently found impossible to hold this meeting. M. Tardieu fell ill and Mr. Stimson could not wait longer at Geneva. See No. 240, note 4.

No. 104

Sir H. Rumbold (Berlin) to Sir J. Simon (Received April 27)

No. 293 [C 3404/235/18]

Sir,

BERLIN, April 23, 1932

I met the Prussian Secretary of State at dinner last night and had a long conversation with him about the National Socialist party.

2. Herr Weismann told me that the Prussian Prime Minister, in a recent conversation with him, had admitted that Hitler's activities in the direction of propaganda had been twenty times as great as those of the Social Democratic party. Dr. Braun, who had considerable experience in this matter, estimated that the Nazi propaganda in connection with the two ballots for the Presidential election must have cost the party some 50 million marks. There was a general belief that Hitler had at one time had a large party fund in Switzerland, but this fund must now be seriously depleted.

3. Turning to the suppression of the Storm Detachments and Defence Corps, Herr Weismann said that these bodies had been a great drain on Hitler's funds. He could not have paid the members of the Storm Detachments less than 3 marks a day, and, as Herr Weismann estimated their numbers at 400,000, this worked out at over a million marks a day, an expenditure which it was impossible to continue for any length of time.

4. Herr Weismann drew my attention to an incident, about which I had already read in the evening press, namely the hostile reception accorded to Hitler at Neidenburg on the 20th instant. The attitude of the crowd had been so hostile that Hitler, under police advice, had been obliged hastily to leave the town in question. This was the first time that anything of the sort had happened to Hitler. Of far greater importance, however, was the speech made on the 21st instant by the Bavarian Prime Minister, Dr. Held, in which he had dealt faithfully with Hitler and had raked up

the latter's behaviour after the abortive Putsch in Munich in 1923. This speech should make all the more impression in view of the fact that Dr. Held is a member of the Bavarian People's party and, as such, of conservative leanings.

I have, &c.

HORACE RUMBOLD

No. 105

Sir R. Lindsay (Washington) to Sir J. Simon (Received April 26)

No. 193 Telegraphic [C 3359/29/62]

WASHINGTON, April 25, 1932

My immediately preceding telegram.¹

Gilbert² also gave me the following information:

1. Mills assumes that immediately after French elections serious conversations will begin in preparation for Lausanne Conference. He hopes very much that in the course of them sufficient progress will be made to foreshadow a satisfactory outcome of the Conference itself. He is anxious to ensure that paragraph on debts in Republican programme shall be neutral and colourless, which is best that can possibly be hoped for. It may be difficult to get this but he would be greatly helped if preliminary conversations eventuated as described above.

2. Reports from United States Embassy in Paris represent French authorities as saying that they are most anxious to be reasonable and prepared for sacrifices but that in present state of French feeling they cannot possibly contemplate cancellation of reparations; that their difficulty *vis-à-vis* His Majesty's Government is that latter refuse to contemplate anything less than that, alleging that that is what public opinion in America really desires. As to this, Gilbert said many individuals here do desire complete cancellation but that what influential public opinion desires is above all, that reparation Powers shall get together on some really constructive scheme—in other words that Europe shall give America a lead over the fence. He is convinced a mere prolongation of moratorium would be regarded as little better than complete failure. He himself does not advocate complete cancellation probably only because he does not regard it as practical politics. He was rather inclined to suggest, though not quite unreservedly, that best thing for reparation Powers to do in their discussions would be to forget altogether that America existed, and then to go along as far as they could go along together.

¹ Not printed. This telegram reported a discussion with Mr. Castle, Under-Secretary of the United States Treasury, on the agreement for the repayment with interest, over a period of ten years, of the annuity (under the Anglo-American debt-funding agreement) postponed in accordance with the terms of the Hoover moratorium.

² Mr. Parker Gilbert, Agent-General for Reparation Payments.

Sir H. Rumbold (Berlin) to Sir J. Simon (Received May 3)

No. 303 [C 3515/235/18]

Sir,

BERLIN, April 27, 1932

With reference to my telegram No. 84¹ of the 25th April, I have the honour to enclose herein tables giving the results of the elections in Prussia and comparing them with the last Prussian election in 1928, the Reichstag election in 1930 and the two ballots for the presidency this year. At the last Prussian election four years ago the Left parties obtained 230 seats, as against 162 on this occasion. The Right obtained 164 seats, as against 203 on the present occasion. On both occasions the Communists remained stationary with 57 seats. In 1928 the Left Coalition obtained a majority of about 10 over the Right and the Communists together, and with this small majority they had no difficulty in governing Prussia. The Right parties on this occasion are short of a majority over the combined Left parties by about 20 votes. If Hitler had obtained another 10 or 15 seats a Right coalition could have been set up. As it is, a minority Government doomed to sterility must be formed unless the Centre join the Right or the Communists support a Left-Centre Coalition.

2. Some 82·6 per cent. of the electorate went to the polls on this occasion, the election being much more warmly contested than in 1928. As the electoral quotient has been raised from 40,000 to 50,000 votes per seat, the new House will contain about 30 seats less than the old, or 422 Deputies in all. Just over 22 million votes were cast. Of these, Hitler got almost exactly 8 millions, or 3 millions less than an absolute majority. Hitler and the other parties of the Right together muster almost 11 million votes, while the Left parties, without the Communists, muster 8·4 millions, and with the Communists 11·2 million votes. Prussia is almost equally divided between Left and Right.

3. Apart from the very close voting of the two rival factions, the feature of the elections was the practical extinction of the small parties of the Right, whose bewildering programmes seem at last to have proved too much for the electorate. These small parties, which mustered 80 members in the old Landtag, expected to obtain 40 or 50 seats on this occasion. To the surprise of everybody, they have gone over almost *en bloc* to Hitler, although they voted for Hindenburg at the presidential election. It would seem that Hitler has now exhausted this particular source of recruiting. About a quarter of Hugenberg's following likewise deserted him and joined Hitler. The Nazis swallowed up all the small fry of the Right as well as the People's party, the Christian Socialists, the Economic party and seemingly quite a large part of the Democratic party, and obtained a little more than 36 per cent. of the total votes cast. In some parts of the country Hitler obtained fewer votes than at the first presidential ballot. In most cases, however, he obtained considerably more than at the first, but less than at the second ballot, while in a few cases, for no apparent reason, he even gained ground

¹ Not printed.

since the second presidential ballot. He made a great deal of play with the charge of corruption against the 'system' in Prussia, but refrained from boasting, and even declared that he would be satisfied with the vote which he received at the second presidential ballot. His vote in Prussia is shown to have doubled since the Reichstag election in 1930, but as he had already gained most of this ground last autumn, the loss of momentum is evident. His efforts to make up the remaining 15 per cent. necessary for a clear majority have failed so far owing to the resistance of the Centre, the trades unionists and the Communists to his propaganda. Even if all the forces of the Right in Prussia be attributed to him, he must make another half a million or million converts from the Centre, Socialist or Communist ranks to have a secure majority. Hitler himself has stated recently that his success is to be attributed primarily to the unemployment figures and the prevalent distress. His charges of corruption helped him in Prussia, where the electorate seem to have attributed the Sklarek² and other municipal scandals, for which the City of Berlin is responsible, to the Prussian Government. Jobbery in Prussia was perpetuated more by the Centre and People's party than by the Socialists, who have been made the scapegoats.

4. Though the results of the elections are negative, they have helped to clear the air. The combined Nationalist attack was admittedly directed against Prussia. It has failed by a small but clear majority. The Centre party continue, as in the Reich, to hold the key position. The disappearance of the small parties tends to simplify matters, and, as stated in paragraph 12 of the Annual Report³ on Germany for 1931, it would look as if a future Reichstag would consist of four main parties, National Socialists, Centre, Social Democrats and Communists. The defeat of the German National party, which has dwindled from seventy-one to thirty-one members, was to some extent foreseen. Hugenberg's invincible obstinacy was bound to result in the ruin of his party and its ultimate subordination to the National Socialist movement. The Social Democratic party lost ground, as might have been expected. Their losses were greatest in the valley of the Ruhr, where unemployment is chronic. As the younger generation leave the schools in the factory towns they join the ranks of the unemployed, so that the Socialist party, losing members in the normal course through old age or sickness, only obtains a very small proportion of the new recruits. Many of the unemployed who left the Socialist party and took refuge with the Communists have now gone over to Hitlerism in the hope of better things. So long as Germany's exports and imports continue to shrink, the Socialist party must be prepared to suffer. The party polled 5.5 million votes in 1928, as against 4.7 millions on this occasion, a loss of nearly a million votes in four years. The rate of loss has, however, fallen off since last autumn, and both Hamburg and Berlin now show a small improvement.

5. The National Socialists are now the largest party in Prussia, and the question of the future Government of that State is naturally the question

² In the autumn of 1929 the three brothers Sklarek were arrested on charges of defrauding the municipality of Berlin of several millions of marks.

³ Not printed.

of the moment. Will the Centre-Socialist Coalition endeavour to cling to office as a minority Government, or will the Centre attempt the experiment of a coalition with the Nazis? Will the Social Democratic party deem it advisable for tactical reasons to go into opposition and compete with the Communists at the next Reichstag election three years hence for the support of the masses? In that case the Centre would be faced with a difficult choice. Would Hitler be prepared to jettison most of his cargo in order to take the Centre party on board? Would it be possible for the Centre to govern with Hitler in Prussia and against him, as it were, in the Reich? Would it be better for the Centre and Socialists to remain in alliance and spend the next four years marking time in Prussia, avoiding serious legislation and waiting for an improvement in the economic position? All these questions are now being discussed at party headquarters, and there is ample time before the new Landtag meets for a thorough investigation of the new possibilities.

6. I was present last night at a dinner given by the Vice-Chancellor, Herr Dietrich, to which General Groener and several of the leading personalities in the financial and industrial world had been invited. There was naturally much speculation with regard to the future course of affairs in Prussia and talk of a coalition between the Centre and the Nazis for carrying on the Government of that State. One argument in favour of such a coalition was that the Centre would act as a steadying force and, to a certain extent, as a brake on adventures in the domain of internal or foreign policy. Herr Wassermann, one of the principal directors of the Deutsche Bank, who is an ardent Zionist, and, as such, might have been expected to condemn the Hitler movement, root and branch, pointed out that Germany was, after all, a democratic country, which must take account of the 13 million votes secured by the National Socialists at the second ballot in the presidential election. In his view, it was essential that the National Socialists should now be associated not only with the Government of Prussia, but also with that of the Reich. Herr Dietrich did not rule out a coalition Government in Prussia composed of the Centre and the National Socialists, but thought that the Centre would make conditions which it would be difficult, if not impossible, for Hitler's party to swallow. It would then be necessary to fall back on a business Government, and he pointed out in this connexion that such a Government had carried on in Saxony for the last three years.

7. I derived the impression from my conversations that there might eventually be some changes in the composition of the Government of the Reich, but that nothing would be done until the question of the complexion of the future Government of Prussia has been settled.

8. The new Landtag has been summoned for the 24th May. Its first task will be to elect a Speaker, and its second to elect a Prime Minister. Unless a majority for another candidate is obtainable, or unless the rules of procedure are altered again, the retiring Government is required by the Constitution to remain in office and conduct the affairs of State. The Centre hold the key to the majority question, while the Communists hold

the key to the procedure question, should the Centre elect to remain in office with a minority Government. So far the parties have not gone beyond non-committal declarations, the Centre stating that they are prepared to co-operate with any party provided that orderly and constitutional government can be guaranteed in Prussia. They are not prepared, they say, to indulge in any experiments. Hitler, on the other hand, has announced his readiness 'to undertake the Government of Prussia and to work with any party which aims at a national Prussia permeated with a Socialist sense of justice and a spirit of energy'. The case of Hesse is regarded to some extent as a precedent for the action of the Centre party. In Hesse the Centre submitted a list of their conditions to the National Socialists, and, when the latter failed to accept them, no further steps were taken. The Communist party has merely announced that it will endeavour by all the means in its power to prevent a National Socialist Government from obtaining office. In other words, the party will refuse to alter the rules of procedure, though it intimates that it wishes to impose certain conditions. As the Communists are likely to stand their ground, a Nazi Prime Minister can only be elected with the help of the Centre. For the moment that party shows no desire to hasten its decision.

9. The post of Speaker in the Landtag is also important, as he, in conjunction with the President of the Staatsrat and the Prime Minister, can determine the dissolution of the Landtag. It has been the custom to choose the Speaker from the largest party, and in this case a National Socialist would, if the Centre agree, be elected.

10. In the other Federal States, i.e. in Bavaria, Württemberg and Hamburg, the Nazis and Nationalists failed to obtain a majority over the other parties. In Bavaria they lack 18 seats, in Hamburg 17, and in Württemberg 14 for a majority. In Bavaria and Württemberg the Centre hold the key to the position, while in Hamburg the existing coalition seems likely to stay in office, as both the Socialists and Democrats gained ground.

11. No political party, with the possible exception of the Centre, is pleased with the results of the election. The press as a whole, however, has taken the results of the Prussian elections calmly enough. Hugenberg's papers affect to be satisfied with the attainment of one of the two aims of the Harzburg front, namely, the defeat of the Left Government in Prussia. It has to admit that, owing to the failure of the Right parties to obtain an absolute majority, the Communists are in a position of the utmost importance. The other newspapers of the Right parties appeal to the Centre to respect the views of the electorate and enter a coalition with the National Socialists.

12. The Centre press taunts Hugenberg with his defeat and has little to say about the intentions of the party, beyond asserting that no adventures and no experiments will be tolerated anywhere in Germany so long as the Centre has anything to say. The Socialist press consoles its readers by observing that the Right have failed to capture Prussia or any of the four important Federal States in which elections took place. The tiny State of Anhalt is dismissed as insignificant. The Nazi press speaks of the defeat

of the Groener-Severing 'system', and calculates that, on the basis of the elections on the 24th April, a new Reichstag election would almost double the existing Nazi poll. The Nazis would obtain 12 million votes instead of 6½ million, as in 1930, the Socialists would obtain 7 instead of 8½ million, the Communists would lose half a million, while the German Nationalists would lose 350,000. It is not claimed that the Right would have a majority in such a Reichstag, but the Nazis would have an immense following.

13. Should the new Prussian Landtag prove incapable of establishing a Government, the Government of the Reich might, as an extreme measure, have to have recourse to article 48 of the Constitution and establish a Government by commission. It is fairly clear that the presence of a minority Government in the three largest States will tend to increase the influence and enhance the importance of the Central Government. It may even give an impulse to the movement for the establishment of a unitary State in Germany. The Government of the Reich must, at all events, see to it that the Executive in Prussia is capable of carrying into effect the legislation passed by the Reichstag, and to that extent they are directly interested in the establishment of a workable Administration.

I have, &c.

HORACE RUMBOLD

No. 107

Sir R. Lindsay (Washington) to Sir J. Simon (Received May 12)

No. 724 [C 3853/29/62]

WASHINGTON, April 27, 1932

Sir,

In view of the forthcoming Conference at Lausanne on Reparations, a few words from here on debts may be not out of place.

2. On the whole the position here as regards public opinion on the question of debts is probably about as satisfactory as could be hoped. It is very freely referred to in the press and quite a large number of the better-class papers openly advocate cancellation. The same cannot be said of the popular press, which on the whole is inclined to advocate the simpler view that an inter-governmental debt should be met just like a private one. The same distinction of views exists also, and naturally, among persons. The average man in the street who does not think much, who is hardly educated up to such issues and who is inclined to take his views from his local politician, knows nothing of the merits of the case and is unhesitatingly opposed to the assumption of fresh burdens by his Government. Among educated people, and even among politicians, I should say considerable progress has really been made. Of course, you could not expect much to be said openly in advocacy of cancellation during a pre-electoral period. The rank and file of politicians are disregarding the merits of the question and talking openly in terms of vote-getting values, but even the ignorant ones have misgivings

as to whether something must not or ought not to be done some day when things are safer from the electoral point of view.

3. The amount of ventilation and discussion that the question has received in the last three months is quite considerable and the education of opinion has gone on satisfactorily. It is invaluable that it has still not become a party question in any way. And it is noteworthy that there have been but few outbreaks of protest against cancellation talk, and those comparatively insignificant. There has been no sign of any strong popular reaction in that sense. Even Al Smith's categorical proposal to forget the debts for twenty years has failed to break equanimity. I admit the existence of ugly elements, notably those politicians who, in the fullness of their cowardice, would rather drive Europe into default than vote for any sort of remission; but on the whole I think that America is on the way to a stage at which it might, in favourable circumstances, be prepared to face the problem quite squarely by next winter.

4. But it is almost too much to hope that the favourable circumstances of the moment will persist. With people here so nervous over their own politics, there are a score of possible mishaps, incidents, ineptitudes which might disturb the balance and bring about a serious set-back. I hardly know how to define any of these untoward possibilities, because the danger comes not from their existence, but from the extreme delicacy of the present equilibrium which it is so important to preserve. I am not referring to any decisions which the Lausanne Conference may reach (this I will discuss later); nor to the possible obduracy, in different directions, of France and Germany, which is expected; but to possibilities far more incalculable and more difficult to guard against—an unfortunate controversy, or a badly-worded statement capable of distortion, especially, alas! if coming from England; or even some desperate move in the political game in America.

5. Far more substantial than these ghosts in the air is the obstacle to a settlement with America presented by the financial and economic situation in this country. In a very jumpy state of nerves, Congress is still engaged in balancing the budget, but it is difficult to persuade oneself either that its courage is yet screwed up firmly to the sticking point, or that on the most favourable assumption a real and honest balance will be achieved. Perhaps perfect and technical balance does not much matter; but I cannot persuade myself that favourable assumptions are justified as to the course of financial and economic events in the near future. Apart from the new credit inflation policy, on which anxious hopes are pinned and which may or may not prove a success, I and my staff can detect nothing which foreshadows a turn of the tide. On the contrary, we see on every hand an immense mass of unemployed labour with its savings spent, no national system of relief, towns and States at the end of their resources, agriculture bankrupt, and private charity exhausted after two years of astonishing effort. I admit I have been expecting bread riots any time these last three months, and they have not yet come; but I cannot bring myself to expect to remain so pleasantly deceived throughout the summer and autumn. I will not try to forecast

exactly how things will proceed, but I will say this—that even if deterioration in this country proceeds no faster than at present, we shall by next December have reached a most unpleasant crux. At this moment, on the 5th December to be precise, the present Congress will reassemble for the short session, and will immediately have to face another deficit in the budget of 1933. We hope that at the same time the Powers of Europe may be able to come forward and say: ‘You have told us that if we can get together on some reasonable settlement of reparations, you will not be unreasonable about debts; here is our settlement, please now play your part.’ What response will such an appeal meet with? It is my considered opinion, judging by the conditions of the present moment, that Congress will expect the payments due on the 15th December from America’s debtors to be punctually made. I trust I may be excused from attempting any forecast of what may happen later than that.

6. I do not think I can err in anticipating that on the 15th December the standard by which the United States will regard the debts owed to it will be the capacity of the debtor to pay. From Germany little is due and nothing will be expected. In the case of France, according to present appearances, a good deal of animus will enter into the situation for reasons with which you are familiar, and full payment will be expected. From Great Britain, too, though for different reasons. I do not know whether the British economic recovery is as real as it seems, but its outward manifestations, the rise in sterling, the balanced budget, the repayment of the French and American credits, and above all the spirit of the people, have made a tremendous impression here. Whereas in last December we were looked on as the impoverished aunt, to-day we appear as a Moses to lead the world out of the wilderness. A little while ago, Mr. Castle said to me (though he was not speaking *ex cathedra*): ‘Nobody could now say that you would be unable to pay your debts in December.’ I cannot escape the conclusion that the bond will have to be met on the 15th December.

7. I must recapitulate to you the time-table for the next eight months, than which nothing could be more awkward. We may now hope that Congress will adjourn in the beginning of June. It seemed likely at one time that it would meet again after the conventions, but the leaders have apparently decided against that course, and business is being accelerated. It will therefore reassemble on the 5th December, unless in the meanwhile some catastrophe should compel the summoning of a special session, which, in itself, would be a major catastrophe. On the 14th and 27th June the Republican and Democratic Conventions meet at Chicago; the former will probably be short, and the latter is likely to be prolonged. In the first days of the conventions the party platforms are written, and if only they are colourless, a difficult corner will have been turned.

8. Parenthetically, I mention here Mr. Mills’s hope that before the 14th June he may have encouraging news of the preliminary conversations on reparations, so as to help him get a colourless plank in the Republican platform. Of course, this is highly desirable. I am not sure that in itself

it is so extremely important. In neutral circumstances, that is in the absence of any 'shock', Mr. Mills ought to be able to get his neutral plank. Possibly Mr. Mills is thinking that the time-table here is unfair to the Republican as opposed to the Democratic party. A 'shock' is more likely to come after the Lausanne Conference has met, and might enable the Democrats to get in a suitably unpleasant plank when the Republicans had already committed themselves to a neutral one. All I can say is that in their own interest the Reparation Powers at Lausanne would do well to postpone the administration of any 'shock' till after the Democratic Convention is over and perhaps even later. I quite realise how difficult this may be, for this convention may well last a whole month—till the end of July.

9. After the conventions the electoral campaign will begin with more than the normal energy and bitterness. During all this period the Administration will be impotent. Whatever the contingency, the President will be unable to bring off again the *coup* of last summer by which he committed, if not Congress, at least the majority of influential Congressmen to the moratorium. No action will be possible except in the event alluded to above of a major catastrophe of unprecedented dimensions necessitating the calling of a special session of Congress. If the Lausanne Conference were to achieve even the best possible solutions, the Powers may or may not choose to address themselves at once to the United States Government—that would be a matter of tactics to be settled at the moment. If they did so address themselves, the United States Government would only be able to lay the communication aside till after the presidential election.

10. Either Mr. Hoover will be elected on the 5th November, which, at present, seems very unlikely, or a Democratic President will be chosen to take office on the following 4th March. In the former event, things will be immensely simplified. The Administration will have another four years of office before it and should be ready to undertake any negotiation with foreign Powers forthwith, while its difficulties with Congress, though serious, will be no more serious than they are to-day. In the event of a Democratic President being chosen, I simply do not know what will happen. When a presidential election brings about a change of party the normal thing is that the outgoing Administration does the very minimum—nothing but routine work, budget, &c.—till it vacates office on the 4th March, when the new President comes in with a free hand. I do not know whether this normal procedure will be followed next November and December in circumstances in which, as can be foreseen, the whole world may be clamorous for decisions. If some deviation from the normal procedure is to be attempted, I have no conception of how it might be done. But, whichever party wins, be it remembered that the Congress will meet in a mood that is far from likely to be generous. Last year the Powers were able lightheartedly to do a highly technical default on the 15th December. The Administration had committed itself up to the point of having negotiated and signed instruments. Scores of Congressmen had been rushed into acquiescence. These conditions will not prevail next winter. The Administration's commitment is far more

indefinite; the Congress, so far from being committed at all, has gone on record against all cancellation or reduction, and if anyone is tempted to suggest that a technical default like that of last year might be allowed again, the answer would be to point unrelentingly to the wording of the Resolution of the 23rd December last. And when I think again of the state of affairs that is likely to prevail here next December, I can only repeat the warning expressed above in paragraph 5, that His Majesty's Government should be prepared to meet the instalment due in the middle of that month.

11. In a short time His Majesty's Government will be entering on serious negotiations for a lasting settlement of reparations. I presume they will advocate complete cancellation all round, and that they are prepared to leave in the air the question of America making a 'corresponding adjustment'. I think such a line of policy to be entirely unobjectionable from the point of view of this country. As I reported in my telegram No. 193¹ of the 25th April, Mr. Parker Gilbert said to me the other day that in dealing with reparations, Europe might well forget America altogether, though his opinion was not entirely without reserves, which he did not formulate. But I do not see why the Reparation Powers should not substantially so proceed—after all, it is what the United States Government have invited them to do. As to when the 'corresponding adjustment' by America would follow, I have indicated my opinion that it would not mature by the 15th December next—beyond that I should prefer not to attempt to be precise; but the situation, without a 'corresponding adjustment' would be a *reductio ad absurdum*, incapable of being maintained for long even in American politics and even in a time of extremely bad economic conditions here. The menace of repudiation would become very insistent—but this is ground on which I am incompetent to venture.

12. It is natural and just that those Americans who are preparing themselves to support some measure of cancellation or reduction of the debts, remembering that such an operation in itself involves for America all give and no take, must feel under compulsion to secure that the concessions they may make shall not be entirely fruitless. They will not face a repetition of last year's proceedings in which the moratorium failed in any way to improve the world situation. Many feel very genuinely that concessions as to debts should be used as the means of securing real advance towards disarmament, and Senator Borah still harps persistently on this theme. Whether any serious attempt will be made to link debts and disarmament is to my mind doubtful—perhaps even more than doubtful. But quite certainly America has the right to demand that its 'corresponding adjustment' shall only be conceded in return for a really businesslike handling of reparations, for a settlement holding out a genuine promise of permanence, which may make the reparations questions cease to be a question. I think it important that the conference should bear this in mind. A mere prolongation of the moratorium would not meet requirements. I think it likely that another halfway house towards solution, such as the Young plan was in 1928, would

¹ No. 105.

fail to evoke the 'corresponding adjustment' which will be necessary before any settlement can be complete. Something short of out-and-out cancellation of reparations would probably suffice. Maybe complete cancellation is more than can be hoped for, but I see no reason why the Reparation Powers should not travel as far along the road in that direction as they possibly can.

13. I submit the foregoing observations with diffidence, conscious that the situation is replete with incalculable uncertainties which may completely upset the anticipations to which I have given utterance.

14. I am sending a copy of this despatch to the High Commissioner for the United Kingdom in Canada, and a copy to the Prime Minister of Australia, c/o the Dominions Office.

I have, &c.

R. C. LINDSAY

No. 108

Letter from Sir H. Rumbold (Berlin) to Mr. O. Sargent (Received May 11)
[C 3816/29/62]

BERLIN, May 4, 1932

My dear Sargent,

During the last two or three days I have heard a report that François-Poncet is thinking of proposing to his Government that, in return for a cancellation of German reparations, Germany should undertake not to raise any political questions, such as the Corridor, etc. for a period of seven years. It is also stated that the French here might be satisfied with five years. If François-Poncet is serious in the suggestion attributed to him, it remains to be seen how his own and the German Governments would view the proposal. At first sight, it would seem that the Germans would be well-advised to clinch with such an offer if it were made to them, for a promise not to raise the Corridor question for a specified number of years surely implies that Germany would be at liberty to do so at the end of that period.

There are, however, several snags in the proposed bargain which might prove awkward, if not dangerous. Obviously it must be exploitable by the French. To satisfy French public opinion, will not a French Prime Minister be obliged to state publicly that while Germany has been let off reparations she has been neatly pinned down on other outstanding questions? This would irritate and inflame German opinion and be awkward for any German Government. Brüning could probably put the proposal through the present Reichstag, for the small middle parties do not want to commit suicide by defeating him. But, unless Hitler also accepted it, a campaign by him in the country would be inevitable and formidable. It was Hitler's successes at the polls in September 1930 which aroused French anxiety and led to the credit crisis. A campaign by Hitler now against the political truce would completely nullify its effect and more harm than good would be done in the end.

The association of the Hitlerites in the Governments of Prussia and the Reich is now being discussed as a probability, but I am very doubtful whether even then Hitler would or could accept a political truce. In the matter of the Corridor and Upper Silesia time is working against the Germans, and though Polonisation is, I understand, fairly complete, especially in the Corridor, a truce would be likely to inspire the Poles to greater efforts. Unless the Poles at least maintained the *status quo* for the period of the truce, the Germans would hardly see any advantage in the bargain.

Finally, even if both Brüning and Hitler were to accept the proposal, is any draft of a political truce possible which would not mean (a) perpetual bickering and irritation of public opinion on both sides and (b) ensuring a first-class row five or seven years hence? Any attempt to define the questions affected by the truce would tend to ensure that all of these questions would be raised when it expired, and this would hang like a sword of Damocles over Europe in general and Eastern Europe in particular. Against this it might be argued that circumstances in the course of five or seven years might cause at least some of these questions to fade or even disappear.

Though I am not able to judge, I have heard it said that a political truce in Europe would have a good effect on American public opinion; if so, that would be an important consideration. But, as regards Europe and Germany, I thought it worth while to mention some of my misgivings when reporting about François-Poncet's activities.

HORACE RUMBOLD

No. 109

Sir H. Rumbold (Berlin) to Sir J. Simon (Received May 12)

No. 91 Telegraphic [C 3863/29/62]

BERLIN, May 12, 1932

Substance of Chancellor's speech in Reichstag yesterday will I presume be given in the 'Times' today. My own report will follow by despatch but I venture to draw attention to the following passages.

Chancellor declared yesterday his firm conviction that cancellation of all political debts would bring relief to every country and every citizen throughout the world. 'Unfortunately' he added 'this is not the attitude of all Governments concerned. Although these Governments admit that Germany after the expiration of the Hoover holiday year cannot pay reparations they are anxious to cling to hope that Germany later after a period of years can resume payments or at least can produce a lump sum. It seems to me that those who are relying on such hopes have not taken into account that conditions which would make such future payments possible are in fact unrealisable.'

Referring to measures taken by Germany to safeguard her currency Chancellor declared that they had not been introduced as an instrument of trade policy but in connexion with 'sudden withdrawal of private short

term credits last year and indeed at the instigation . . .¹ under unworthy pressure of our creditors'.

Subsequently Chancellor declared 'I do not hesitate to declare Germany is ready as soon as pre-conditions mentioned by me are fulfilled to proceed with removal of all hindrances to trade and to conclude agreements for the removal of tariff walls'.

He concluded by informing National Socialists that he refused to embroil himself in internal controversy as he needed all his self control 'for the last hundred yards before the winning post'.

¹ The text here is uncertain. In a later despatch giving the full text of the speech this sentence ran: 'at the suggestion, indeed on the almost ungentlemanly (unwürdig) pressure of our creditors.'

No. 110

Sir H. Rumbold (Berlin) to Sir J. Simon (Received May 12)

No. 92 Telegraphic [C 3864/29/62]

BERLIN, May 12, 1932

My immediately preceding telegram.¹

You will observe as Lausanne Conference approaches the Chancellor's attitude towards Reparations, intergovernmental debts and disarmament is becoming more and more definite.

¹ No. 109.

No. 111

Letter from Mr. R. H. Campbell (Paris) to Mr. O. Sargent (Received May 18)

[C 3924/29/62]

PARIS, May 13, 1932

My dear Sargent,

I am sorry not to have answered before your letter¹ of May 6 enclosing a letter² from Rumbold reporting that he has reason to believe that François-Poncet is contemplating reviving the idea of a political truce. Delay has been due to the fact that it has been quite impossible here during the last week to give one's mind to anything requiring concentration.

2. Rumbold's information suggests that François-Poncet's idea springs from his own initiative and is not due to any inspiration from Paris. Certainly we have had no indication that minds here have been working on any such line, and my own belief is that the idea is unlikely to be withdrawn from the shelf to which it appeared to have been relegated.

3. For one thing, the circumstances are not the same as when the French Ministers, alarmed at the signs of an imminent German collapse, intimated to Brüning and Curtius during their visit to Paris last July, that they were

¹ Not printed.

² No. 108.

prepared to consider the terms of French participation in a big international loan subject to certain financial guarantees and to 'measures of political appeasement'. At that time the public had just had to swallow the Hoover moratorium. If, on the top of that, it was to be induced to lend its savings to a Germany which seemed to be reverting more and more to her pre-war mentality, it was necessary to produce some substantial *quid pro quo*. Today, after the lapse of nearly a year, the public has come to realise that it must make the best of a bad job. Nor is there today any question of getting the public to subscribe to a loan. Unless therefore it receives a very rude shock at Lausanne, I think it may be said that there is today definitely less need than was the case a year ago for offering it a *quid pro quo*.

4. A further factor which makes me doubt whether any French Government will wish to revive the idea of a political truce is that the public would no longer have any faith in it. It is fully realised here that no Government in Germany at present, however sincere it might be, is in a position to ensure the honouring of any bond which it may give. This feeling will be strengthened by the Chancellor's latest public utterances which are generally taken to mean that he has composed or thrown in his lot with Hitler. It is true that the French Government were not apparently deterred by this consideration last July, but much water has flowed through the bridge since then.

5. The above considerations are set out without regard for any change of policy which may ensue here as a result of the elections.³ It is for the moment quite impossible to say what form any change may take or how far it may go. Herriot's policy, as publicly declared during the last year, closely resembles that of Tardieu, Laval, and Co. in the matter of reparations and disarmament. But the policy of a party which comes into power is not always identical with its previous declarations; and the fact that the Radical success exceeds their own hopes, and would tend to indicate a considerable change of mind in the country, may well increase the discrepancy on this occasion. Much, of course, depends on whether the new government contains Socialist participation (though judging by Blum's daily utterances there is no question of this) or whether it is one of concentration with the moderate Centre. It will be some time before the situation clarifies sufficiently to forecast which of these alternatives will materialise; at present the most hardy prognosticators confess to being completely at sea. But whatever happens I think it can safely be said that the policy of the new Government will be, to say the least, less intransigent in method if not in substance.

6. To what extent this more conciliatory spirit might modify one way or the other my opinion that it is improbable that the French Government

³ In the French general elections, which took place on May 1 and 8, the parties of the Left obtained a majority. M. Tardieu resigned on May 10 but, at the request of the President of the Republic, agreed that his resignation should not take effect until the reassembly of the Chambers on June 1. On June 4 M. Herriot formed an administration in which he became Minister of Foreign Affairs as well as President of the Council. M. Germain-Martin became Minister of Finance.

will revive the idea of a political truce, I should be puzzled to say. If at all, I should imagine it would be in the direction of making it more rather than less improbable inasmuch as it might be considered that an attempt to tie Germany down to maintain the *status quo* should be avoided for the reason that it would presumably be regarded by her as an attempt to inflict a humiliation.

7. This brings me to my last point, which seems to me to dominate all other considerations, namely that there is surely no question of any German Government accepting a political truce. Last July the German Ministers refused to entertain the idea on the ground that any government in Germany which subscribed to it would be swept from office. It appears to me—though this is not my province—that Rumbold hits the nail on the head when he points out that it would be a bad bargain for Germany. Indeed in present circumstances would it not amount to giving something for nothing? Last July there was the bait of a large international loan. Today the only bait would be that of a more generous reparations settlement, but the Germans, I take it, would today hardly regard this in the light of an enticement. They have left the world under no doubt as to the line they propose to take at Lausanne, which they know accords more nearly with our view than with that of the French. As to the questions which would have been covered by a political truce, and the possibility of obtaining their aims in their own way, the Germans presumably hope that a Radical Government in France will be less stiff and that the influence of His Majesty's Government will be such as not to discourage them.

8. Everything would be different of course if the Germans, with the advent of a more sympathetic government in France, made an honest attempt to co-operate by helping the French over their difficulties with their public opinion. In that event the idea of a political truce, in some form not humiliating to Germany, might possibly be revived with advantage.

RONALD CAMPBELL

No. 112

Sir J. Simon to Sir H. Rumbold (Berlin)

No. 538 [C 3906/29/62]

FOREIGN OFFICE, May 14, 1932

Sir,

In conversation with the German Ambassador this morning, I referred to Dr. Brüning's speech last Wednesday defining the position taken up by the German Government on the subject of reparations. I said that the Prime Minister's conversations at Geneva would have made plain to the Chancellor how earnestly he was striving to bring about an adjustment of views. If, however, His Majesty's Government are to act as 'honest broker', which we believe to be the wish of the German Government, we feel that our task would be facilitated if Dr. Brüning could abstain from

restating in dogmatic fashion a point of view which was likely to provoke retort from other quarters, especially in view of the delicate position of French politics. I fully realised the necessity in which Dr. Brüning found himself of having to make the recent pronouncement to the Reichstag, but, as the Reichstag had now adjourned, I hoped that no further action need arise for a public statement during the next few weeks, for this could only make the bringing about of an accommodation more difficult.

Herr von Neurath responded in very friendly fashion to this suggestion. He said that the Chancellor had gone on holiday, and that he did not himself believe that further declarations were contemplated. The German Government appreciated the efforts which the Prime Minister had been making, and, while the German situation necessitated the recent statement, there was every desire to promote as far as possible the atmosphere most favourable for agreement at Lausanne.

I told the Ambassador that I had heard that neither Signor Grandi nor the head of the French Government would be in Geneva during the coming week, and we agreed that in present circumstances the work of further preparation for Lausanne could not be advanced by meeting there. An opportunity might, however, present itself some days before the 16th June, and in the meantime we were studying various aspects of the subject with close attention.

I am, &c.

JOHN SIMON

No. 113

Mr. Newton (Berlin) to Sir J. Simon (Received May 28)

No. 376 [C 4278/235/18]

BERLIN, May 26, 1932

Sir,

With reference to my despatch No. 361¹ of the 18th May, I have the honour to report that a member of the staff of this Embassy had a conversation recently with a lifelong and intimate friend of General Groener, in the course of which the resignation of the latter and the circumstances connected with it came up for discussion. The following is a summary, given as far as possible in General Groener's own words, of his version of what happened, as derived from this friend, who has proved a reliable informant on other occasions.

'The National Socialist problem,' began Groener, 'has for some considerable time been a very difficult problem for the Government, but it was, and is, a far more difficult problem for the Minister in charge of the Ministry of Defence. Owing to the disappearance of the numerous volunteer associations, which were suppressed from time to time by

¹ Not printed.

successive German Governments at the request of the Allies, the Nazi organisations naturally had a monopoly of the volunteer patriotic movement. By the end of last year things had developed so far that, in the event of aggression, Germany would have to rely on the Reichswehr being supplemented by reserves supplied by the two large defence organisations, the Nazi army and the Reichsbanner. These two organisations being deadly enemies, it was obvious to any Minister of Defence that he must, as a matter of policy, either choose between them or abolish both of them. To abolish both of them appeared at the moment to be a formidable task, and I made the mistake, without actually mentioning the Nazis by name, of opting for their support in case of need. I issued my order of the 29th January accepting Nazi recruits for the army with the approval of the Chancellor. It was that step which ultimately led me to resign, for I had to admit that my subsequent policy was at variance with my order of the 29th January.

Our recruiting stations throughout the country were naturally only too anxious to recruit the best men. Now the best men would naturally find their way into the Nazi organisations, which in the remoter parts of the country are not Nazi in a political sense, but merely Nationalist. In this way a fairly close association developed between the garrisons and the S.A. and S.S. detachments. These latter promised, or rather volunteered, in the event of a Polish attack to place all their men at the disposal of the Reichswehr.

Things proceeded satisfactorily until the imminence of the presidential and Prussian elections brought the Governments of Bavaria, Württemberg and Prussia into conflict with the Nazi militarist organisations. When these Governments requested the Government of the Reich to take steps to abolish the Hitler army, we considered the position in the Reichswehr Ministry, and there was a consensus of opinion that the principle of private armies was indefensible, and that it would be better if the Hitlerites and Reichsbanner were disbanded in turn. For political reasons, and more especially to avoid any quarrel with the Bavarian Government, I decided that I should recommend the immediate dissolution of the Hitler army, and I was able to do so with greater ease of mind when my advisers at the Reichswehr Ministry informed me that the police would be supported by the military should there be any serious opposition to the dissolution decree.

Many officers in the Reichswehr counted upon the dissolution of the Reichsbanner as the logical sequence of my action against Hitler. When, however, they submitted such evidence as the Defence Ministry possessed to Dr. Meissner for the information of the President, this proved to be of the flimsiest in a legal sense, and the Social Democratic party anticipated the decision of the Government by abolishing their only organisation of a quasi-military character, namely, the Reichsbanner organisation, into which members of the Prussian police were transferred after they left the service.

'The officers corps were now faced with the fact that the only quasi-military organisation in the country was that of the Left, an organisation to which they felt they could not attach the same value in the event of foreign aggression as that of the Hitlerites. As soon as the decision of the Government to refrain from abolishing the Reichsbanner became known protests began to reach the Ministry in shoals. The country garrisons complained that a severe and one-sided blow had been dealt to those classes which were prepared to volunteer for the defence of the country, and that the continued existence of the Reichsbanner was regarded as a sign that the Brüning Government had opted for the Left parties and for a pacifist policy generally. The piles of letters on my table increased out of all proportion after my speech in the Reichstag. The strain, and especially the assumption of responsibility for the abolition of the S.A. detachments, had been telling on my health, and I addressed the Reichstag when I should have been undergoing medical treatment. The result was highly unsatisfactory, and no political party in the Reichstag was prepared to congratulate me when the sitting was over. Feeling in the Reichswehr Ministry was, as I was reliably informed, unusually pessimistic. The Minister of Defence had cut a bad figure in the Reichstag; the attacks of the Nazi Deputies were bound to increase the cleavage between the army and patriotic circles in the country. Indeed, my postbag on the following day contained letters from friends and acquaintances to the effect that I seemed bent upon the extinction of whatever glimmer of patriotism still existed in the country. I summoned Schleicher, with whom I have always been on the best of terms, and discussed the situation, not from any personal standpoint and certainly not from any political standpoint, but simply and solely from the standpoint of the Ministry of Defence, and the future of the Reichswehr, the cause which, when all is said and done, is the cause which we have most at heart in the Ministry. It was then that I came to the decision that I would tender my resignation, a course which he, too, felt would be the best in the circumstances.

'It was Schleicher's duty in any event to inform the Government and the President of the state of feeling in the Reichswehr. It would be quite misleading to talk of a camarilla or to talk of an intrigue on Schleicher's part. We are friends of long standing. You must remember that the growth of the Hitler movement has been followed with great anxiety in the Ministry of Defence, and there is nothing which would be so obnoxious to the Reichswehr authorities as the advent to power of a Hitler Government. It would never do to have a Hitlerite Minister of the Reichswehr. There is therefore something to be said for the view taken by Schleicher and many of the senior officers, that a non-party chief is indispensable at the Ministry of Defence. Owing to the fact that in my capacity as Minister of the Interior I had to sign the order abolishing the S.S. and S.A. detachments, which I had practically recognised officially as recently as the 29th January, I had become definitely a political Minister and was occupying the most unpopular seat in the Government at the moment.

For these reasons I decided to leave the Ministry of the Reichswehr and retain that of the Interior. There was no question of choice, as some of the newspapers think, between the two Ministries. The only choice left was between remaining Minister of the Interior and resigning altogether. The Chancellor saw my reasons and concurred in my decision. What we are now seeking is a suitable Minister of Defence, whose appointment will show the country that the policy of the Government is unchanged, and will at the same time inspire confidence in the Reichswehr. The dissolution of the Hitler forces was politically necessary. To effect it, however, without damage to the military spirit ("Wehrfreudigkeit") of the country meant the sacrifice of the Minister responsible.'

2. Commenting on General Groener's statement, his friend said that the effect created in foreign countries was admittedly unfortunate. It must, however, be borne in mind that the internal position in Germany was peculiarly delicate. If the present Government could not rely on the cordial support of the Reichswehr in the event, say, of collisions with a Nazi Government in Brunswick or elsewhere, their position would be untenable. It might even be ultimately necessary for the army to support a minority Directorate under Brüning rather than allow the country to drift into turmoil. A Nazi majority in the Reichstag would be most unwelcome to the Reichswehr Ministry, as foreign countries would inevitably take alarm. He concluded by mentioning the difficult position of the President, who wished to support the Brüning Government without alienating the sympathies of the Reichswehr. So far, when complaints had been made to President Hindenburg, he had supported Groener. On this occasion Groener felt that he would prefer to go rather than allow the old President to suffer any further bombardment of telegrams, &c., from the patriotic associations and his old army friends.

I have, &c.

B. C. NEWTON

No. 114

Mr. Newton (Berlin) to Sir J. Simon (Received May 30)

No. 101 Telegraphic [C 4334/235/18]

BERLIN, May 30, 1932

Dr. Brüning's Government resigned this morning after a brief Cabinet meeting. Disagreement with the President on vital points is said to have led to this decision. The President has entrusted the Government with conduct of affairs pending choice of their successors.

Normal constitutional procedure of summoning party leaders in turn is to be followed, and the President intends to interview them to-day.

No. 115

Mr. Newton (Berlin) to Sir J. Simon (Received May 30)

No. 102 Telegraphic [C 4336/235/18]

BERLIN, May 30, 1932

My immediately preceding telegram.¹

I understand from reliable source that interview between the Chancellor and the President on latter's return from holiday was frigid.

The President complained that he was being asked to go back on his word and sign fresh decree imposing fresh burdens, although the Government had promised him on the last occasion that there would be no more of these unpopular decrees.

The President also pressed Groener's complete dismissal, a point which the Cabinet could not concede as the Socialists would withdraw their support.

Strong influences from the Right have been brought to bear on the President at his country estate.

¹ No. 114.

No. 116

Mr. Newton (Berlin) to Sir J. Simon (Received June 6)

No. 396 [C 4548/235/18]

Sir,

BERLIN, May 31, 1932

The fall of the Brüning Government, which I reported in my telegrams Nos. 102¹ and 103 of the 30th May, took place with unexpected suddenness and undoubtedly took by surprise a public opinion which had confidently expected that the Chancellor would continue to hold the reins at least until after the Lausanne Conference. Only on Saturday, the 28th May, in a speech at the foreign press banquet, reported in my despatch No. 392² of the 31st May, the Chancellor had declared that the Government were more preoccupied with unemployment than with governmental crises, which were 'now out of date, questions with the smell of museums hanging about them'. It is obvious, of course, that on that occasion the Chancellor was obliged to show confidence, but that he himself had not expected the development of an immediate crisis is also indicated by remarks made by him privately to reliable persons after the decision had been taken.

2. In my despatch No. 380³ of the 26th May, I observed that, despite the fact that the position of the Government was more than ever precarious, it might, given the continuance of firm support by President Hindenburg, continue to hang on for some time yet. Although Dr. Brüning personally, the Centre party and the Social Democrats were the main agents of the field-

¹ In error for 101 and 102, Nos. 114 and 115. In his telegram 103 of May 31 Mr. Newton gave a short summary of the reasons for the fall of Dr. Brüning's Government.

² Not printed.

³ Not printed. This despatch reported German comment on a suggestion made in the British press that Germany might pay a lump sum in final settlement of reparation claims.

marshal's re-election, the President's support was somewhat suddenly withdrawn and Dr. Brüning had no alternative but to resign.

3. It had been known for some time that the Cabinet had been preparing a new emergency decree designed to make up the budgetary deficit caused by revenues falling far below estimates, and to deal with the major problem of unemployment. This latter problem Dr. Brüning frankly regarded as the crux of the internal situation on the ground that the alleviation of unemployment would check the further radicalisation of the country, while failure to solve this problem might well prove disastrous. Though the terms of this programme have been kept jealously secret, it is said that it embodied a scheme worked out by Dr. Stegerwald, as Minister of Labour and leader of the Centre party Trade Unionist wing, for settling unemployed on a grand scale in the country. The land was to be compulsorily expropriated from such large landowners, chiefly east of the Elbe, who had been obliged to resort to the assistance given by the moratorium decree and whose properties on investigation proved to be incapable of being worked at a profit. Details of the scheme are not available, but I understand that the expropriated landowners were to be provided with paper sufficient to pay off their creditors on a reduced scale, and to leave something over for themselves. Most of this land consists of extremely poor soil, and is, in fact, under present conditions, of only nominal value. Many of the properties, however, belong to families which have lived on them for several generations, and rumours of the measures proposed caused them to rally indignantly together in defence of their rights. The fortnight's holiday which Marshal von Hindenburg spent over Whitsun in his country residence at Neudeck provided these landowners with a specially favourable opportunity to bring influence to bear upon him.

4. The landowners' protests, moreover, seem to have given the signal to all those elements in Germany, including the landowners of the old régime and the great western industrialists, who are determined at all costs upon a complete change of direction in internal policy, involving the elimination of the Socialists and trade unionists from all share in the Administration. Their efforts to influence the President were, I am reliably informed, the more successful because the results of the presidential and Prussian elections had convinced the President that a reconstruction of the Cabinet was due.

5. It is probable that the moving spirits in the movement against the Brüning Government imagined that the ex-Chancellor would remain in office until the Lausanne Conference, and that that conference would inevitably provide them with an opportunity to strike him down on his return. Dr. Brüning, however, even if he failed to realise the extent to which the President had been influenced, was not unaware of the danger. When the President returned from Neudeck Dr. Brüning demanded an assurance of his support not only for the Lausanne Conference, but for carrying through his programme afterwards. On good authority I learn that the President retorted by complaining of being asked continually to sign emergency decrees, and stated that he was in a position to appoint a Government which could

command a majority in the Reichstag and legislate in the ordinary way. He thereupon demanded the resignation of General Groener, Dr. Stegerwald, and the Minister of Finance and Vice-Chancellor Dr. Dietrich. This proved too much for Dr. Brüning and the resignation of the whole Cabinet followed.

6. Immediately after his first interview with the President on Sunday Dr. Brüning attended a lunch given for Mr. Reginald McKenna, at which other members of his Cabinet were present. A reliable informant who had some conversation with Dr. Brüning at that luncheon told a member of this Embassy that Dr. Brüning expressed the opinion that any new Government formed would find it impossible to cope with the situation, and that after their failure his opportunity would occur. He expressed, however, some anxiety lest in the interval the delicately balanced system which he had so carefully built up should be allowed to fall to pieces, and that his opportunity might only come when the situation had become hopeless. He further expressed grave anxiety lest the new Government should attempt to abolish the existing wages award system ('Tarifrecht'). Such an attempt, he felt, in the existing situation would be highly dangerous and might even lead to revolution.

7. It is difficult at this stage to forecast the likely course of events. It seems practically certain that Dr. Brüning will not accept any post in the new Government, though there are indications, plainly expressed in the 'Deutsche Allgemeine Zeitung', that the Right Nationalist groups regard his prestige abroad as an asset and would be glad to have him at the Ministry for Foreign Affairs. It is, moreover, uncertain what the Centre party will decide to do and their attitude to the new Government can be decisive. For the chancellorship a whole string of names has been mentioned, including Freiherr von Gayl, the representative of East Prussia in the Federal Council; Dr. Gessler, a former Minister of Defence; Dr. Goerdeler, formerly Price Commissioner under the late Government and Lord Mayor of Leipzig; Herr von der Osten, formerly a member of the Nationalist party and a close friend of the President; General von Schleicher, Count Westarp, former leader of the Nationalist party and now a Conservative, and Herr Schlange-Schöningen, Eastern Commissioner in the late Government. Herr von Papen, chief proprietor of 'Germania' and notorious military attaché in Washington during the war, has also been mentioned, but the Democratic press do not treat his candidature seriously. The idea is also prevalent that Dr. Schacht may soon play a prominent rôle once more in some capacity or another.

8. There has also been talk of an early dissolution after the formation of a Government *ad interim*. It is known that the Hitlerites are claiming a constitutional right to a new general election, but there is some doubt as to whether they really desire a general election in the immediate future or whether they might not prefer to wait in the expectation that conditions will deteriorate and lead to their obtaining a clear majority in the Reichstag. The Hitlerites are said also to be demanding the raising of the prohibition against the storm detachments and key positions in the Prussian Landtag, as the price of their

support for any Reich Government. On the other hand the view is held in some quarters that if the Nazis identify themselves with any Government in power, even if only to the extent of tolerating it for a few months, they will lose ground.

9. Yesterday, in accordance with constitutional practice, President Hindenburg received Dr. Löbe, President of the Reichstag, and then Dr. Breitscheid and Herr Wels. It is reported that in an interview which only lasted a few minutes the Social Democratic leaders expressed their dissatisfaction forcibly with the turn which affairs had taken. The President for his part is said to have assured them that he intended to abide by the Constitution.

10. Subsequently, the President received Hitler and Dr. [sic] Goering, the interview lasting over an hour. He is to see the remainder of the party leaders in the course of to-day.

I have, &c.

B. C. NEWTON

P.S., *June 1.*—It is officially announced this morning that Herr von Papen has been offered the chancellorship by the President. I am reporting further details in a following despatch.

B. C. N.

No. 117

Sir R. Lindsay (Washington) to Sir J. Simon (Received June 2)
No. 246 Telegraphic [C 4414/29/62]

WASHINGTON, *June 1, 1932*

Secretary of State sent for me early this morning to his private house to talk about Lausanne.

He took as his text report of language used by Flandin mentioned in paragraph 2 of my telegram No. 193¹ and affirmed that if His Majesty's Government were refusing on ground of American opinion to contemplate anything but complete cancellation, which he himself did not believe, then their attitude was misconceived. But he was aware that His Majesty's Government were advocating complete cancellation and he thought this was wrong too. It must have the effect of driving German Government to refuse any admission that it could ever pay anything and as this was a manifest absurdity and a position which French Government could not possibly accept, it must force on a purely German default with disastrous consequences to something more than to the whole system of debts and reparations. Incidentally and as a secondary matter he mentioned that possibly one of the reasons for British advocacy of total cancellation was desire to save the City of London's commitments in Germany and Central Europe, an idea which he regarded as fallacious.

Lausanne, he said, might produce one of three results:—

(1) A mere prolongation of moratorium. This, he said, would be regarded

¹ No. 105.

as most disappointing and unsatisfactory by America as it would bring things no further forward.

(2) Complete cancellation would involve throwing the whole on America's shoulders and he considered it out of the question that Congress would accept such a solution.

(3) There remained open only some compromise between these two extremes. It was ridiculous to maintain that Germany would never be able to pay anything and it was important as early as possible somehow to bring German Government to firm admission that some day they would be willing to pay something. This could only be brought about by strong co-operation between His Majesty's Government and French Government which he considered most advisable. At the same time he considered that His Majesty's Government had been very wise to refuse as they had done so far to form a united front with French as regards making any settlement at Lausanne contingent upon or conditional on what America would do as regards debts. He emphasised strongly that it was entirely in the interest of His Majesty's Government, if a settlement was achieved at Lausanne, to bring it separately to America as British case for concessions as regards debts could only suffer by being confused with French case. He frankly admitted the extreme difficulty of the task before His Majesty's Government of carrying co-operation with French Government just to the point which suited themselves and then breaking it.

He called particular attention to an article in 'The Economist' of May 14 (which I had not then seen) which he said represented almost exactly what United States Government hoped would issue out of Lausanne Conference as a compromise solution.

He said it was far from him to dictate to His Majesty's Government what they should do, and he had no *locus standi* for offering advice. He was speaking to me under necessary limitations as member of Administration unable to bind Congress, but with strong desire to be helpful to His Majesty's Government. He was also leaving out of consideration the events of the last two days in Germany resulting in appointment as Chancellor of a man who 'if proposed as Ambassador here would unhesitatingly be refused'.

The views I expressed were as follows:—

His Majesty's Government had indeed advocated total cancellation as their policy and it really was certainly most desirable both from their own point of view and from that of the interest of the world in general. Though I was imperfectly informed I hardly thought they expected to obtain total cancellation at Lausanne and I presumed they would reluctantly accept a compromise. Such a settlement would produce a sum of money which would be of minor importance to Creditor Governments especially if its payment were preceded by moratorium of some years; and its receipt would certainly not be a sufficient compensation for the evils entailed by prolonging present uncertainties and by continuing for further years the existence of a poison in the system of the body politic of the whole world.

No. 118

Mr. Newton (Berlin) to Sir J. Simon (Received June 2)
No. 107 Telegraphic [C 4436/235/18]

BERLIN, June 2, 1932

Herr von Papen has been officially appointed Chancellor, and following appointments in new Cabinet are announced: Minister of the Interior, Freiherr von Gyl; Minister of Defence, General von Schleicher; Minister of Economics, Warmbold; Minister of Food and Agriculture, Freiherr von Braun (also Commissioner for Eastern Territories); Minister of Posts and Transport, Freiherr von Eltz-Rubenach, a high official of German railway company.

So far no one has been found willing to undertake Ministry of Finance. Baron von Neurath is mentioned for Foreign Affairs, but is said not to be enthusiastic. Ministries of Justice and Labour remain to be filled.

No. 119

Mr. Newton (Berlin) to Sir J. Simon (Received June 2)
No. 109 Telegraphic [C 4454/235/18]

BERLIN, June 2, 1932

My telegram No. 107.¹

Centre party and Bavarian Centre held meetings yesterday at which they protested vigorously against frivolous behaviour of those irresponsible intriguers who brought about dismissal of Dr. Brüning. In a sharply worded resolution the Centre reject the new Cabinet, which they consider to be anything but a Cabinet of national concentration.

The press this morning concludes that early general elections are inevitable as no Government can survive unless it be at least tolerated by the Centre in the Reichstag.

Nazi press adopts an attitude of friendly neutrality to what it calls the Transition Ministry. It demands the withdrawal of decree abolishing Storm Detachments, and demands immediate dissolution of the Reichstag.

¹ No. 118.

No. 120

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 3)
No. 113 Telegraphic [C 4520/235/18]

BERLIN, June 3, 1932

My telegram No. 111.¹

Baron von Neurath, who has just been to see me, states he only accepted Ministry for Foreign Affairs with great reluctance and after an urgent

¹ Not printed. This telegram reported the appointment of Baron von Neurath as Minister for Foreign Affairs.

personal appeal from the President, which he could not disregard. He is returning to London to-morrow and will enter on his official duties in about a week's time. His account of main cause of crisis confirms information contained in second paragraph of Mr. Newton's telegram No. 103², namely, that President had impressed on Dr. Brüning that he must take account of swing to the Right which had been shown at recent elections in Germany, and that Dr. Brüning had been either unable or unwilling to share this view. Baron von Neurath's own opinion is that nerves both of President and of Dr. Brüning were in a high state of tension at the time of the interview between them. Dr. Brüning has since collapsed as a result of overwork and strain.

Reichstag will be dissolved to-morrow and fresh elections will be held at the end of July. Until then Government is assured of Hitler's support. I gather that Baron von Neurath's own idea is, or was, that present Government would have a short life, but President has assured him that Hitler would be glad to see him (von Neurath) at Ministry for Foreign Affairs for a long time to come. Dr. Brüning has also expressed satisfaction that Baron von Neurath has taken over Ministry for Foreign Affairs. I told Baron von Neurath that his departure from London would be regretted in all quarters, but that it would be a source of satisfaction to you that he had become Minister for Foreign Affairs.

Speaking privately, Baron von Neurath said that there were one or two men in the Government with whom he would not have wished to have been associated politically. On the other hand, Cabinet contained some capable members, such as Gayl, Warmbold and Krosigk. Goerdeler has asked for no less than three Ministries for himself, a request which could not be granted. Baron von Neurath said that he did not quite know yet what General von Schleicher was worth.

He added that he would go to Lausanne, and that new Chancellor would possibly accompany him there. He (von Neurath) had the advantage of knowing the Italian Ministers as well as some of the French. He did not expect much to come of Lausanne, and seemed to think one of the difficulties in the way of achieving results would be due to the fact that new French Government would be a minority Government, and consequently somewhat weak. As regards foregoing, I would point out that, with fresh elections impending, new German Government is also necessarily in a weak position, and two weak Governments will be confronting one another at the conference. It will be impossible for new German Government to enter into any commitments for the future at Lausanne. Von Neurath said that a year ago the then German Government might have considered payment of a lump sum in final settlement of reparations, but that economic situation had since deteriorated to such an extent that such a payment was now impossible.

As regards Prussian Government, he did not know what was likely to happen for the time being, but eventual idea is to return to the system in force in Bismarck's time, under which the Chancellor is likewise Prussian Prime Minister.

² Not printed. See No. 116, note 1.

No. 121

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 3)

No. 114 Telegraphic [C 4508/235/18]

BERLIN, June 3, 1932

At an interview with the German press last evening the new Chancellor declared that he had only accepted office very reluctantly in response to a personal appeal by the President. He himself sympathised whole-heartedly with Dr. Brüning and his work during the last two years. The new Government had accepted office with the idea of making the sacrifices and burdens of the country more tolerable by concentrating all the national forces in different camps. The tremendous effort which German people would have to make in the near future could, in their opinion, only be made if all intellectual, moral and national resources available were mobilised. The press this morning remains unresponsive to the Chancellor's appeal and is frankly sceptical as to his claim to be concentrating the national forces.

In a letter to the party, von Papen says that his acceptance of office cannot be at variance with tireless, systematic and practical work of Dr. Brüning. But he felt the new Germany must be based on forces to which the younger generation were pinning their hopes.

Centre have replied that von Papen's decision was taken in deliberate disagreement with the view of the party leaders. Conclusions to be drawn are therefore obvious.

In the Prussian Diet the Centre spokesman stated yesterday that the loyalty of the party to Brüning and his policy was stronger than ever. He protested vigorously against the change of Government and stated that no Prime Minister would be elected in Prussia without the assent of the Centre.

'Germania' announces this morning that Herr von Papen has resigned from the board of the newspaper and has undertaken to refrain from any attempt at influencing it.

No. 122

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 4)

No. 115 Telegraphic [C 4522/235/18]

BERLIN, June 4, 1932

My telegram No. 114.¹

Great confusion prevails here and it is evident that President was very badly advised when he subordinated foreign to purely internal and indeed parochial affairs. Different intriguers in Berlin were working for Brüning's disposal and success of Neudeck clique took them all by surprise and found them practically unprepared. Their plans, if any, were frustrated. In changing horses just before Lausanne President not only weakened Germany's

¹ No. 121.

position abroad but set political parties by the ears at home. His advancing years are apparently telling on him.

Berlin intriguers aimed not so much at Brüning's dismissal as at establishment of a strong government at home with right tendencies in order to stave off Hitler and his anti-capitalistic programme. Schleicher in particular is said to have been prepared if necessary to suspend the constitution rather than entrust defence forces to an inexperienced demagogue.

Rejection of Papen by Centre and hostile attitude of foreign opinion seem to have come as a surprise to President and only way out—a general election—is not very promising. Left are hoping that Hitler too has made a mistake if, as assumed, he has agreed to tolerate a cabinet of reactionary landowners. Left mean to make the most of this during the election campaign, especially among the masses in the towns.

No. 123

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 6)
No. 118 Telegraphic [C 4536/29/62]

BERLIN, June 6, 1932

My telegram No. 113.¹

I ought to mention that after Baron von Neurath had made the remarks recorded in penultimate paragraph of my telegram under reference I ventured to tell him that the method which German delegation to Lausanne conference might choose to present their statement would make a considerable difference from the psychological point of view. He quite took the point.

¹ No. 120.

No. 124

Sir J. Simon to Mr. Newton (Berlin)
No. 628 [C 4545/29/62]

Sir,

FOREIGN OFFICE, June 6, 1932

This morning I conversed for the best part of an hour with Herr von Neurath, and we are to resume our discussion to-morrow after I have reported to the Prime Minister.¹ I asked the German Foreign Minister whether the formation of the new Government in Germany betokened any change in Germany's attitude to foreign affairs. He replied that it did not; he had expected me to put this question, and had therefore prepared a written statement, which he handed to me and which is annexed. Herr von Neurath gave some interesting information about the circumstances of his appointment. The suggestion that he should become Foreign Minister had, as I understood him, been made to him before, but he had always declined.

¹ No record can be traced in the Foreign Office archives of any further discussion with Baron von Neurath. On June 9 Sir J. Simon wrote a letter (printed below as No. 128) to Baron von Neurath enclosing the draft of a proposed 'political truce'.

On the present occasion, however, he felt bound to comply with the strong personal appeal of President Hindenburg. He had been surprised to learn from the latter that the Nazis had urged his appointment, which, he understood, was not intended to be a stop-gap, but was made with the intention of leaving foreign affairs in his hands after the German elections. He told me that he had stipulated that he should himself have full responsibility in this department, and had reached an arrangement with Chancellor von Papen on this matter.

I said that I wanted to take advantage of the opportunity, and of our previous friendship, to ask him one or two questions about his conception of German foreign policy, the answers to which would help us in the difficult times immediately ahead. In the first place, we should like to know what was the contribution which Germany felt she could make towards European appeasement and recovery. We fully appreciated Germany's case on the subject of reparations and disarmament, and we realised Germany's economic difficulties. But if Britain was to act as 'honest broker' in the impending discussions, it was necessary that Germany should provide something more than a list of what she wanted. What would Germany be able to contribute from her side? If we were to be useful in getting Germany's case fairly considered and provided for, it was clear that there must be some *quid pro quo*. Had Herr von Neurath considered how far Germany could go in the direction of adhering to a political truce for a period of years? Herr von Neurath at once said that this pointed to the question of the Polish Corridor, and I agreed that that would be an example. He then said emphatically that, as things were now, German policy did not aim at securing an alteration, but, on the other hand, it was quite impossible that Germany should contemplate a continuance of the existing situation for ever. I said that my query had reference to a term of years, during which there would be an agreement between European States to pursue no policy which was calculated to raise controversial political issues. Such an agreement would not be addressed to any specific question or country, but it would be a form of assurance which might be valuable in return for an adjustment of the reparation and disarmament positions. It was important, as it seemed to me, both as a means of meeting natural French anxieties and as a proof to the United States that Europe was doing its utmost to preserve the peace. And it had a further implication, in that, if Europe was able to show to America that it was making a real effort to get rid of suspicion and promote appeasement, this might influence the attitude of the United States in a way which would enable America's European debtors to take a more favourable view of reparations. All these things were therefore connected, and I was most anxious to impress on him, as Germany's new Foreign Minister, the importance which we attached to a contribution being made by Germany instead of Germany's attitude consisting solely of a demand for changes in her favour. Herr von Neurath received these observations in very good part, and said he thoroughly appreciated the importance of this point of view. It is a matter which we will take up again in our later discussion.

I also asked him whether he could tell me anything of the line which he would take up when he went to Lausanne. It was one thing to go there to expound the German point of view and to ask that it should be fully considered and allowed for in the arrangements we were trying to reach; it was quite another thing to go there and announce a unilateral decision on the part of Germany without any effort to negotiate. Herr von Neurath assured me that he had no intention of going to Lausanne to bang his fist on the table, and that the first of the two methods I had sketched was the one that Germany would follow. His examination during the last few days in Berlin of the German position had satisfied him that it really was quite impossible for Germany to undertake any payment of reparations henceforward. I referred to Dr. Brüning's last public statement and asked whether Herr von Neurath would be making any public declaration on his own account before going to Lausanne. He told me that he did not intend to do so, and I said I was very glad to hear it. We should go there with a determination to seek agreement by every possible means, but premature declarations only made things more difficult.

In referring to Germany's internal affairs, Herr von Neurath scouted as ridiculous the rumours about a Hohenzollern restoration and the like. Von Papen, he said, had been nominated as Chancellor because he was himself a member of Dr. Brüning's party, and it was thought that this would be approved by the Nationalists; unfortunately, this had not turned out so well as expected. Of some of his other colleagues the Foreign Minister spoke most highly, and the general impression he sought to convey was that they were not at all likely to take an extreme line and might be depended upon to be reasonable. I said that we were very glad indeed that he had become Foreign Minister, though sorry to lose him from London. He knew the sentiment of Britain and the attitude of the British Government very well, and I hoped that this would serve him in good stead and enable us to get in close contact during the anxious time before us.

I am, &c.

JOHN SIMON

ENCLOSURE IN NO. 124

*Aide-mémoire communicated by Freiherr von Neurath to the Secretary of State,
June 6, 1932*

The present German Government obviously cannot take any other point of view with regard to the question of reparations than that which the former Government have on repeated occasions publicly stated, and which they have submitted to the Governments of the creditor countries in the course of diplomatic conversations. The issue is not what Germany wants or does not want, but how to draw the only possible conclusion from the existing facts. The former German Government at the time spared no effort to bring about the Lausanne Conference at the earliest possible date; the attempt to have the conference convened in January or February failed, however. The efforts

of the German Government to prepare the present Lausanne Conference with France and the other Powers concerned have equally not led to any result, because of the change of Government in France. For the same reason the French suggestion of preparing the conference by confidential conversations between two reparation experts from each party concerned was dropped again at a later stage. This threatens to lead to the dangerous position that the Governments concerned are going to a conference—more important than any other conference of past years, and on the result of which the fate of many nations and the economic structure of the world depends—without having previously been in touch with one another and without a previous measure of agreement. Under these circumstances, the German Government regard it as their duty to convey their views to the other Governments before the conference meets.

The Lausanne Conference has a negative and a positive object.

The *negative* task implies the final liquidation of the reparation issue. Since the London Conference on the Hoover plan, since the reports of the Basle Committee and of the Special Advisory Committee of the Young plan, economic, financial and social conditions have taken a dangerous turn for the worse in nearly all States. A number of States are faced with economic, financial and social collapse. At the London Conference and in the discussions before the committees mentioned above, the general reparation issue was still the central problem; the development in the meantime has reduced the reparation issue to a part problem of secondary importance within the framework of the general world problem of economic and financial reconstruction. The Government are therefore faced with new problems of a general character, reaching far beyond reparations and inter-State debts.

The German Government have to face the fact that it has become doubtful if it will be possible to continue the transfer of the interest and sinking-fund charges on German bonds in the hands of *private holders* abroad. The Reichsbank's holding of gold and foreign exchange has shrunk to a most dangerous low level. The German Government cannot allow the remaining amount to shrink to nothing, but must retain a certain amount as last reserve, in order to provide for the importation of the necessary food-stuffs and raw materials from abroad for the German people. Now that all other sources of foreign exchange have dried up, the service of interest and sinking-fund charges for the private foreign debts has to rely exclusively on the export surplus. In 1932 more than 1,500 million marks are required for these charges. The export surplus at its best—calculated on the basis of the first four months of the current year—cannot yield more than 1,200 millions, but will probably be much less, in view of the increasing obstacles put in the way of German exports. It emerges from these figures that a net deficit has to be expected even now. Under these circumstances, it depends entirely on the result of the Lausanne Conference whether the transfer of the interest and sinking-fund charges can be continued. If the Lausanne Conference leads to such a result as to give confidence and reassurance to the international business community, it will be possible to avert the danger of having to stop transfers.

If, on the contrary, the Lausanne Conference does not produce such a result, and if, consequently, the existing lack of confidence is increased and the prevailing tendency of every country shutting itself off against others with regard to the exchange of capital and goods is further accentuated, the German Government will be obliged to approach Germany's private creditors. A few smaller States have already had to stop transferring the interest and sinking-fund charges on their foreign debts; others are faced with the immediate necessity of doing so. Perhaps the international capitalistic structure might still survive the breakdown and the cessation of payments on the part of these smaller States, but when the same happens with regard to Germany playing a prime part in the international exchange of capital and goods, this structure would be most seriously shaken. After the recent collapses of various financial institutes of international importance, and in view of the general financial strain and weakness in all countries, the cessation of the transfers in Germany is liable to produce menacing results on the general financial stability also beyond Germany. It is, therefore, no longer a reparation issue or a specifically German problem, but a quite general one, that has to be settled in the interest not only of all debtors, but also of all creditor countries.

Owing to this development, it is now generally recognised that Germany cannot pay reparations after the end of the Hoover year and for an indefinite period thereafter. But, moreover, the German Government do not see the possibility of any compromise solutions being based on the hope of later improvements. Such an improvement will not take place if the world is not rendered free of those disturbances which in the past have emanated from the exclusively political debt payments, and which, even if upheld partially and for a later date, are bound to prevent the return of confidence in international business. *It is necessary now to draw the conclusions from this vicious circle*; furthermore, Germany cannot again, as in past reparation settlements, place herself in the position of having alone to bear the risk of a future development which nobody can foresee.

Apart from this, the situation in the United States, which holds the key for the settlement of the problem of international debts, requires the negative liquidation of the reparation question in the common interest of all European States. It is evident from many statements of responsible American statesmen and parliamentarians that only in the case of a complete cancellation of reparations a similar attitude of the United States can be hoped for with regard to their foreign claims. If, on the contrary, the reparation creditors should insist on claiming a final payment, it would have to be assumed that the United States would insist on a corresponding final payment from their European debtors, to be fixed according to their capacity to pay. In maintaining any kind of reparation payments, the Creditor Powers would, therefore, retain only a very small immediate financial advantage, if any. The damage which would be caused by the Lausanne Conference not leading to an agreement on the complete cancellation of reparations would be out of any proportion to the inconsiderable advantage obtained by them.

As to the *positive* task of the Lausanne Conference, the German Government sees this in international collaboration in the financial and economic field. The terms of reference of the Lausanne Conference, proposed by the British Government in February last and adopted by the other reparation Powers, cover not only the reparations question, but also the 'other economic and financial difficulties which are responsible for and which may prolong the present world crisis'. In the opinion of the German Government, of these two problems the solution of the financial problems is more urgent than the economic problem. Important as would be the abolition of the impediments to trade, leading ever more and more to a complete stagnation in the international exchange of goods, every step towards their removal would remain comparatively without success unless the financial difficulties had been removed before. Even if all the obstacles in the way of normal trade were to be removed without delay, yet the international exchange of goods could not be restarted without normalising the international movement of capital, which is a condition for the exchange of goods.

The German Government have learned with interest of the intentions of the British Government and of their preliminary *pourparlers* with the Government of the United States as to the summoning of an international economic conference. They have not yet been informed which in detail will be the objects of this conference. In any case, the German Government note with satisfaction that the views of the two Governments are in agreement as to the necessity of holding such a conference.

The aim of that conference, in its financial aspect, should, in the opinion of the German Government, be threefold, viz., to stipulate the international measures with a view (1) to enable all States to bring their currencies back to a stable relation to gold; (2) to adapt the level of interest and amortisation of private debts abroad to the changed conditions, especially to the change in gold value and commodity prices; (3) to render the abolition of the existing foreign exchange restrictions possible. Only if these objects are solved, previously or simultaneously, international agreements on the free exchange of goods have any prospect of success. The German Government are at the same time willing to take part in international negotiations aiming at the abolition of the existing obstructions to the exchange of goods, such as import prohibitions and quotas, and at a general lowering of industrial tariffs.

LONDON, June 6, 1932

No. 125

Sir J. Simon to Lord Tyrrell (Paris)

No. 1211 [C 4575/29/62]

My Lord,

FOREIGN OFFICE, June 6, 1932

M. de Fleuriau called this afternoon on his return from Paris where he has spent the week end. I had mentioned to him, before he left, the possibility that the Prime Minister and I might try to stop in Paris on our way to

Switzerland with a view to seeing members of the new French Government. M. de Fleuriau said that M. Herriot would appreciate the opportunity of a meeting before Lausanne; his position as a Premier who had only just been appointed made it a delicate matter to make the best arrangement. He would be busy with the French Chamber to-morrow and Wednesday, and he threw out the hint that M. Herriot would be willing, if he was invited, to come over to England for the purpose of a meeting at the end of the week—Sunday would be the best day. I thanked the Ambassador for what he had said, and explained that I should be meeting the Prime Minister to-morrow morning when the matter would be put before him and I should be able to give M. de Fleuriau a further indication of our view.

2. The Ambassador went on to speak of the reparations problem, and told me that in the course of an interview with the French Ambassador at Washington on the 1st June last, Mr. Stimson declared himself much surprised at a statement 'd'un haut personnage britannique' as to the common desire of Great Britain and the United States to see German reparations entirely abolished. 'This assertion,' Mr. Stimson declared, 'is not only inexact, but it is quite contrary to the truth. America desires that Germany should continue to pay reparations. Nothing would please us more or clear up the situation better than a loyal recognition by Germany, though only in principle, of her pecuniary obligations. On this point we support the position taken up by France.' M. de Fleuriau went on to tell me that upon M. Claudel alluding to the opinion of certain Americans that the private creditors of Germany would obtain better security for their advances if Germany repudiated its political obligations, Mr. Stimson had replied that this was not the view of his Government, and added 'the credit of a country is a single whole' ('un tout'). 'Germany could not repudiate its political obligations in the financial sphere without striking a serious blow at its private obligations and alienating the confidence of its creditors.'

3. M. de Fleuriau told me that he had seen Herr von Neurath to-day and, as I understood him, had recounted to him what he had just told me as having been reported to the French Government by its Ambassador at Washington. My comment was that what we must all aim at was agreement as regards the future of reparations as distinguished from repudiation. The practical question, therefore, was to discover what arrangement might be made to which Germany would agree. The Ambassador expressed his own view that no Frenchman would agree to pure cancellation. M. Herriot, he thought, attached great importance to finding some formula which would involve a recognition by Germany of her obligation, even though it in fact worked out as a termination of payments, and he referred to schemes which have been suggested for a postponed and contingent obligation charged on German railways and resulting in payment only if a certain level of prosperity were hereafter reached. I said that we were of course familiar with these suggestions of compromise, but here again it seemed to me that the critical question was whether such proposals could receive German assent. If they did not, even the making of them would not prevent repudiation. There-

fore we must work together to reach some plan to which Germany, as well as France and Britain, could assent. The Ambassador told me that in his conversation with Herr von Neurath to-day the latter had emphasised the need of reaching what he called general appeasement. I asked whether the German Foreign Minister had explained to M. de Fleuriau what he had in mind, and the latter said he had not. So I mentioned, as a possible factor to be considered, the idea of a political truce to be entered into for a period of years, during which all the parties to it undertook to pursue no policy in external affairs which would provoke controversy with their neighbours. M. de Fleuriau had received the same impression as I from the German Foreign Minister, viz., that he intended to present the German case for Lausanne in moderate terms rather than to present an ultimatum. I ascertained that Herr von Neurath *had not* given to M. de Fleuriau a copy of the aide-mémoire which he handed to me this morning, and I made no allusion to its contents.

I am, &c.
JOHN SIMON

No. 126

Sir J. Simon to Lord Tyrrell (Paris)

No. 113 Telegraphic [C 4607/29/62]

FOREIGN OFFICE, June 6, 1932

I regret that pending return of Prime Minister and meeting of Cabinet on Wednesday it has been found impossible to formulate the policy of His Majesty's Government at Lausanne with sufficient precision to enable me to supply you with material suitable for communication to M. Herriot before he makes his Ministerial declaration to-morrow.

I realise however that it is important (1) not to allow M. Herriot to get the idea that we are avoiding an exchange of views with him and (2) to prevent him from committing himself in his Ministerial declaration to statements which might tie his hands when subsequently we try and establish a system of Franco-British co-operation.

You should therefore give M. Herriot the following personal and private message from myself.

I have much appreciated the frank manner in which he has expressed to you his views on the reparations and war debt problem and I should have liked to have been able to reciprocate at once. Unfortunately the absence through ill-health of both the Prime Minister and the Chancellor of the Exchequer has somewhat delayed matters here.

In view of this I hope that M. Herriot will not consider it as interference on my part if I express to him the hope that in his Ministerial declaration he may be particularly careful not to commit himself in any manner which might tie his hands when the two Governments come—as is now imminent—

to discuss their common policy. Generally speaking he will I am sure agree with me that in the circumstances now existing it will be absolutely impossible to get Germany to sign any undertaking to make reparation payments either now or in the future; that a mere moratorium would not enable us to meet the real difficulties of the transfer of enormous sums of money, which is largely responsible for world distress. We are anxious to come to a complete understanding with France as regards war debts and reparation and are prepared to come to discuss with him in the frankest way the views upon which we are at present putting the finishing touches, so soon as conveniently possible. Perhaps some date at the end of the week might be suitable to both parties.

No. 127

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 8)

No. 19 Saving. Telegraphic [C 4655/235/18]

BERLIN, June 7, 1932

At an interview which I had with the Secretary of State this morning he alluded with some concern to what he called the attitude of the British press towards the new German Government. In his view the British press had been harsher in its criticism of the new Government than even the French press. He mentioned the fantastic enquiries addressed by Reuter from London to their correspondent here with regard to reported disturbances and the calling out of troops. He also quoted the report that when the President had reached his 85th birthday he would hand over to the ex-Crown Prince. He said that he would have thought that the National Government in England which rested on a predominantly conservative basis would have had a certain sympathy with a Conservative Government in Germany.

I replied that that was not the point. I admitted that such articles as I had read amongst the more responsible organs of the British press had not been enthusiastic about the Papen Government. The fact was that the circumstances attending the resignation of Dr. Brüning on the eve of the Reparations Conference had come as a real shock to public opinion in England. Dr. Brüning enjoyed great prestige and a good deal of sympathy in England and there had been a fear that his resignation might have an unfortunate reaction on the Reparations Conference.

I said that, if I might use a comparison, Dr. Brüning's Government had acted as a dam against the Nazi flood. Herr von Bülow, pursuing the comparison, said that the present Government would attempt to divert that flood or canalise it.

Sir J. Simon to Baron von Neurath

[C 4768/29/62]

FOREIGN OFFICE, June 9, 1932

My dear Foreign Minister,

. . .¹ I promised to send you a draft of the sort of 'political truce' which I had in mind during our recent conversations. The more I think of it, the more I am impressed with the importance of this factor in the negotiations which I hope so much may lead to agreement at Lausanne. It seems to me that what we must all aim at at Lausanne is common *agreement*. The world cannot recover if all that happens is a demand for payment on one side and a refusal to pay on the other. It would be difficult enough to escape collapse in any case, but if agreement on the topic of reparations was accompanied by a *pledge of appeasement in Europe extending over a substantial period*, I believe the situation would be saved.

It is a great satisfaction to the Prime Minister and to me to know that you intend to present the case of Germany at Lausanne in the spirit which you have indicated. We, on our part, will do everything that is possible to promote these better relationships, but I expect that when we reach Paris on Saturday we shall find very great difficulties in the way of clearing up the reparations question on lines to which Germany would assent. So I venture to express the hope that if, when you reach Berlin, the lines of my suggested political truce seem to you possible of adoption, you would send to me there, either through Sir Horace Rumbold or through your Ambassador in Paris, some encouraging message. I am sure that the Prime Minister would greatly appreciate it if you could. I should not communicate anything you could tell me as to your impressions to anyone but the Prime Minister, but it might greatly help us to pave the way if we can say that we believe that French apprehensions could be met if France in her turn made the big concession which will be demanded of her. . . .¹

JOHN SIMON

P.S. Could you not, in your opening speech at Lausanne, when you explain the facts of Germany's economic situation, say that you acknowledge Germany's obligation under the Young plan *but* etc.? I think this would greatly assist appeasement.

¹ The letter began and ended with an expression of personal good wishes to Baron von Neurath and his wife on their leaving the German Embassy in London.

ENCLOSURE IN No. 128

(1) Increasingly impressed by the urgent necessity for establishing confidence and good understanding between nations;

(2) Conscious of the almost insurmountable difficulties which the traditions of the past have placed in the way of this effort;

(3) Gravely disturbed by the dangers with which Europe will be threatened should the present crisis continue, and convinced that the overwhelmingly important interest of peoples is the immediate economic reconstruction of the Continent as a whole;

(4) The Governments of . . . make the following declaration, in which it is hoped that the other Powers of Europe will join;

(5) They solemnly agree to subordinate their old differences to the promotion of their common welfare, to refrain from actions likely to revive past quarrels or to bring existing agreements into the field of polemics—and generally to renounce and discountenance all proceedings liable to disturb good relations.

(6) The gravity of the present crisis has already had the effect of establishing between the economic and financial centres of the signatory countries contacts of an intimate and friendly nature, and in order to strengthen this *entente* the signatory Governments will exert themselves to give these contacts a still greater and more methodical development. To this end they agree to meet periodically for direct exchange of views on any matter of common importance.

No. 129

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 16)

No. 428 [C 4933/235/18]

Sir,

BERLIN, June 9, 1932

I have the honour to state that on my return here I found, as I reported in my telegram No. 115¹ of the 4th June, a state of considerable bewilderment. The rapid sequence of events, culminating in the dissolution of the Reichstag, dazed public opinion for the moment and gave rise to all kinds of rumours and reports which subsequently proved to be inaccurate.

2. It is evident that the political crisis came to a head much more rapidly than its fomenters expected, and that the actual resignation of Dr. Brüning took his enemies by surprise. It is more than likely that the precipitancy with which events moved helped to frustrate the more sensible designs of the leaders in the new movement. Baron von Neurath himself informed me that, intending to take a short leave of absence about ten days ago, he had enquired of Herr von Bülow whether he could come to Berlin without drawing unwelcome attention to himself. Herr von Bülow had replied as late as Saturday, the 28th May, that nothing new was to be apprehended in the near future.

3. The ostensible reasons for the change of Government have been given. They are, briefly, that the President could not bring himself to agree to at least two provisions of the latest emergency decree prepared by the Brüning Government, namely, that relating to a cut in war pensions and that providing for the settlement on bankrupt estates in East Prussia of a large number of unemployed. Dr. Brüning has subsequently stated that it was intended to settle some 600,000 persons on these estates, *i.e.*, 10 per cent. of the peak

¹ No. 122.

figures of unemployment in Germany. I should mention that the details of the emergency decree have not been published. It is known, however, that the Government receipts were not coming up to the estimates and that fresh taxation had to be provided for. In addition, the President is alleged to have pointed out to Dr. Brüning that he must take more account of the swing of public opinion to the Right as evidenced by the recent presidential and Prussian Landtag elections. Finally, he did not see his way to, as it were, sign a blank cheque in Dr. Brüning's favour both for the Lausanne Conference and beyond it.

4. Dr. Brüning's position had come to depend on the President's support. Having reversed the normal procedure of submitting legislation to the Reichstag and then obtaining the presidential signature, he was dependent on presidential approval in the first instance for his decrees. Immersed in the intricacies of his emergency decrees he chose to ignore the intrigues which were openly going on about him. These intrigues had come to nought time and again, and he failed to observe that the leakage of information about his new decree made him particularly vulnerable in the quarter where he least expected serious danger.

5. To take the alleged intriguers in turn. The President's 'chef de cabinet', Dr. Meissner, has long been suspect in Nazi circles of being tarred with the Socialist brush, mainly because he was originally appointed by President Ebert. Dr. Meissner was anxious to whitewash himself not only because he is at heart a moderate man without any definite, and certainly with no reactionary leanings, but he was also anxious to retain his comfortable and influential post, or at least to ensure his future should defeat or death lead to a change in the presidency. Ever since the autumn he has held the view that the only way to cope with the Hitler movement was to induce the Hitlerites to join a Right Centre coalition, and so force them to shoulder their share of responsibility. Such a Government would have required, in Dr. Meissner's opinion, the confidence of the French Government. It is possible that it was he, whose wife is a schoolgirl friend of Frau von Papen, to whom it occurred that von Papen, as an eager protagonist of a direct Franco-German understanding, with friends in aristocratic and Catholic circles, would be a suitable candidate for the chancellorship. (That M. Herriot has little sympathy with French, or any other, Catholic circles seems to have been overlooked.) Dr. Meissner also apparently assumed that Dr. Brüning could be induced to remain as Foreign Minister in the new Cabinet. Whether von Papen's activities in America were overlooked or deliberately left out of account, it is hard to say. The story is actually little known in Germany, as the press were at the time not allowed to publish it, and anyway the more vigorous exponents of a direct understanding with France, such as von Papen himself, his brother-in-law, the Saar industrialist, Hermann Böckling², or Arnold

² This name appears to be a mistake. There appears to be a confusion between Herr von Bock, a brother-in-law of Herr von Papen, and a member of a Saar industrial family, and Herr Hermann Roechling, one of the most prominent anti-French Saar industrialists. Herr Roechling was not a relation of Herr von Papen.

Reichberg (whom nobody has taken seriously), maintain that France is the only country that counts so far as foreign affairs are concerned.

6. General von Schleicher's rôle was governed by other considerations. His main preoccupation is and has always been to preserve the integrity of the Reichswehr. He has always insisted that the private armies of political parties are a danger to the State and useless in the event of war. A Hitlerite as Minister of Defence, would, in General Schleicher's opinion, be undesirable and highly dangerous for it would inevitably lead to friction, and to the introduction of politics into the army.

7. It would be wrong in my opinion to dismiss General Schleicher as a mere reactionary intriguer. He is far too sensible not to realise that the present state of affairs, namely, the division of the country into a number of bitterly hostile political camps, renders Germany impotent in a national and military sense, and exposes her to danger if it continues. General Schleicher would have preferred a Government under a politician of the Right, like Von Gayl, who is universally respected and has some following, with Dr. Brüning as Minister for Foreign Affairs and himself as Minister of Defence. He would be prepared, so long as such a Government commanded the same majority in the Reichstag as that of Dr. Brüning, to govern. In the event of defeat he would suspend the Constitution rather than allow the Hitlerites to get control of the Reichswehr and the police. Their ill-conceived plans might, moreover, he feels, actually delay conscription and drive in a wedge between Prussia and the other Federal States.

8. To come now to the intriguers who, normally, were least likely to succeed, but who, in this case, carried the day. These were the East Prussian landowners, to whom the President, by his upbringing and mentality, was an easy prey. On his arrival at Neudeck, at Whitsun, they were able to give their version of the provisions of the new emergency measure which Dr. Brüning was preparing. They explained that the failure of East Prussia to vote for him at the presidential election was due to the unpopularity brought on him by Dr. Brüning's emergency decrees which bore his counter-signature, and they reminded him that during the recent elections the Government had officially denied rumours that fresh cuts were to be imposed. Their strongest card, however, was the settlement plan contained in the draft decree, referred to in Mr. Newton's despatch No. 396³ of the 31st May. The essential details of the plan originated with Herr von Schlange-Schöninggen. Here again the pettiest of local jealousies came into play, for Herr Schöninggen has contrived to manage his Pomeranian estate successfully, whilst the East Prussian Junkers are mostly bankrupt. Ever since his appointment last year as Reich Commissioner for Eastern Relief, Herr Schöninggen has maintained that the unwieldy and uneconomic estates in East Prussia must be reduced in size. With Herr Stegerwald he worked out a scheme for colonisation which provided a measure of compensation for the landowners to be expropriated even though they were bankrupt and land in East Prussia to-day is an unsaleable asset. Now in a letter to the press Herr Schöninggen points out that just

³ No. 116.

over a hundred years ago a scheme for reform in East Prussia, which had been drawn up by Freiherr von Stein, was at first resisted with the same stupidity and the same blindness though the landowners had to accept it subsequently for their own salvation.

9. Even prior to the visit to Neudeck it is more than possible that the question of a change of Government had occurred to the President in connexion with the best method of dealing with the Hitler movement. It will be remembered that in order, if possible, to avoid a presidential election, Dr. Brüning, at the beginning of the year, endeavoured to enlist the support of Hitler for a proposal that the President should be re-elected by the Reichstag. This proposal, at first, seemed to have some chance of success, but the intervention of Herr Hugenberg brought it to nought and prevented any co-operation between Dr. Brüning and Hitler in the matter. From then onwards the last Government and Hitler were declared enemies. The two ballots of the presidential elections, followed by the elections for the Prussian Landtag, showed an enormous increase in the Hitlerite vote, and the Brüning Government appeared to be the last dam holding up the Hitlerite flood. Finally, the German Government decided to dissolve Hitler's storm troops and defence detachments, thereby antagonising the leaders of the Reichsheer, who were concerned to keep alive the military spirit in Germany. Those leaders brought about the retirement of General Groener from his post as Minister of Defence and thereby seriously weakened the Brüning Government. Dr. Brüning, on his part, for reasons which were not apparent, was not prepared to fill the three vacant offices in his Government, namely, those of Defence, Economics and Foreign Affairs, by personalities standing more to the Right, it being understood, however, that these offices would be filled after the Lausanne Conference was over.

10. About ten days before his dismissal Dr. Brüning received a summons to visit the President at Neudeck, evidently for the purpose of discussing the new decree and revising it. The Chancellor, however, refused to go and made it clear that he was not prepared to yield on essential points of policy. The Chancellor then realised the danger of going to Lausanne without definite assurances of the President's support for a further period, *i.e.*, until the spring of 1933 at least. For several days before his resignation he let it be known privately that he intended to find out where he stood with regard to the President and get the latter to furnish him with an unmistakable proof of his continued confidence. When the final interview took place the President did not see his way to give him this support; on the contrary, he was adamant in his insistence that there should be no agrarian bolshevism, no confiscation of land for settlement purposes. He demanded the removal of Herr Stegerwald in particular, and urged the dismissal of Dr. Dietrich and General Groener. The closing scene was, I am assured, extremely painful.

11. The world was thus treated to the spectacle of the President dispensing, on the eve of the Reparations Conference, with the services of a man who had acquired the position of one of the leading statesmen of Europe, who enjoyed the confidence of foreign statesmen and to whose unsparing efforts on his

behalf the President mainly owed his re-election. But this was not all. In demanding, as it appears, the resignation of General Groener of his post as Minister of the Interior, the President was breaking with an old comrade in arms with whom he was closely associated during the war, and especially during the period which ended in the flight of the Emperor William to Holland.

12. In dismissing Dr. Brüning and his Government, President von Hindenburg undoubtedly subordinated foreign affairs to internal considerations to an extent without precedent in recent German history. The primacy of foreign policy has been more or less recognised by all Governments during recent years, and this is the first occasion on which internal, and indeed local, affairs have been given pride of place. Whether from the standpoint of foreign policy the President was justified in acting in this way on the eve of Lausanne remains to be seen. So far as internal affairs are concerned his action has intensified the disunion of the country, and the political parties are now engaged in a fresh electoral battle fiercer even than its predecessors. The Centre party, who are noted for their moderation, have been embittered not only by the circumstances attending Dr. Brüning's dismissal, but by the choice of their 'enfant terrible' to succeed him. The appointment of Herr von Papen was so manifestly intended to split the party that the Centre leaders are beside themselves with annoyance at what they regard as unpardonable duplicity.

13. To return to the sequence of events; his enemies having succeeded beyond expectation in compassing Dr. Brüning's defeat, were taken unawares. The landowners, and notably the President's particular friend, Herr von Oldenburg-Januschau, were without plans, while the Berlin cliques were equally unprepared. The President had to take action, and it occurred to him, or he was advised, to form a so-called non-party Government, consisting practically exclusively of men of conservative opinions, who might be able to control the Hitlerite flood by diverting or canalising it.

14. The choice of Herr von Papen as Chancellor was largely due to the fact that no candidate of any standing was willing to take office. Von Papen himself had constantly boasted of his influence with the D'Ormesson group in France and with certain French industrial leaders in Lorraine and elsewhere. He is convinced that he alone can save the Saar when the time comes, and he found a ready ear for the argument that Germany's refusal to pay reparations might endanger the Saar when his influence as a *persona grata* with the French might save the situation. No doubt it was hoped that a section of the Centre would support the new Government or that the party as a whole would tolerate it until the elections took place. They did not foresee the extreme hostility of the Centre electorate in the country, nor did they realise that Bavaria would adopt so unfriendly an attitude. They also failed to realise that Hugenberg, who had not been consulted, would lend them no real support. Although the feelings of foreign countries could, in a certain sense, be safely ignored, they forgot that the attitude of the foreign press was bound to intensify the alarm and disapprobation of the moderate parties

when it became known in Germany. The Government are now having recourse to methods reminiscent of the war years when pressure was brought to bear on the press to abstain from publishing disagreeable truths.

15. The new Government seem to have minimised the difficulties of the financial position. It was only when the search for a Finance Minister proved fruitless that they realised the difficulty of obtaining money for their immediate needs. I am told that Dr. Luther's interview with the new Chancellor was somewhat stormy since von Papen entertained the hope that the Reichsbank would advance funds to help the new Government. Dr. Luther was absolutely firm and even obtained an undertaking from von Papen that the necessary new taxation would be imposed, whereupon the Government had no choice but to adopt the draft emergency decree already prepared by Dr. Dietrich.

16. I had a long conversation with Herr von Bülow on the subject of the new Government on the 6th instant. Whilst premising that he was expressing personal views, he gave me the following account of the circumstances which had led to the formation of the present Government and its prospects. It had been taken for granted that fresh Reich elections would result in the return of the Nazis as the strongest party in the Reichstag, though they would not get an absolute majority. By sending for Herr von Papen, who was on the extreme Right of the Centre party, it was hoped that even if he could not carry the whole of that party with him, he might detach a sufficient number from it to form a majority in the Reichstag in co-operation with the Nazis, even to the exclusion of the Hugenberg Nationalists. The present Government seemed to be fairly confident that Hitler would support them and they expected to stay in office for a considerable period—perhaps four years.

17. Herr von Bülow went on to say that the attitude of the public to the present Government was far more favourable than would appear from the press, owing to the fact that the man in the street was sick of party politics and not disinclined to acquiesce in the experiment of a Government without party or parliamentary affiliations. The members of the present Government did not intend to stand for Parliament at the forthcoming general elections, nor would they stump the country as leaders of different parties would normally do. I must be aware, he said, that Germany was of one mind as regards the reparations and disarmament questions, so that the recent crisis was an internal affair. He mentioned incidentally that the Chancellor, and the Ministers for Foreign Affairs, Finance and Economics would compose the German delegation to the Lausanne Conference.

18. The calculations of the new Government, as recounted by Herr von Bülow, appear to be based on one or two bold assumptions, namely, that Hitler and his party will tolerate them for a considerable time to come, and that there will be a split in the Centre party. Neither of these assumptions can be affirmed with any certainty. The Nazis, however, are perfectly aware that they have not, so far, got the material from which a Cabinet can be formed.

19. It would be risky to attempt to forecast the future course of events.

Some say that if there is a stalemate in the Reichstag as a result of new elections, there will be a dictatorship with General von Schleicher as Dictator. The system followed by Dr. Brüning in ruling by means of emergency decrees, which he subsequently called on the Reichstag, meeting at intervals of three months or so for three days at a time, to ratify, might, indeed, make the transition to a dictatorship less difficult. General von Schleicher has even been cast for the rôle of General Monck, but although the Nazis include one or two Imperial princes in their ranks, the party as a whole does not stand for the restoration of the monarchy, and any attempt on the part of the Right wing to bring about such a restoration would lead to the disruption of the party.

I have, &c.

HORACE RUMBOLD

No. 130

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 16)

No. 429 [C 4934/235/18]

Sir,

BERLIN, June 9, 1932

With reference to my telegram No. 116¹ of the 4th June, I have the honour to report that the declaration issued by the new Cabinet has not been received with any enthusiasm by the press, partly because no influential section of the press is supporting the new Government and partly because the different political parties find the new programme, if anything, too vague and too reactionary. The Left parties are, of course, hoping to benefit by it at the election and are making the most of the fact that Hitler is tolerating a Government which is planning a general attack on the system of unemployment and invalid insurance as well as the other social legislation from which Hitler's followers benefit equally with the other sections of the working community. Among the accusations brought against the Governments of the last thirteen years in the new Government declaration is the charge that Germany has been converted into a kind of benevolent institution on a grand scale. The Left reply mockingly that the only benevolent institution known to them is the province of East Prussia, into which even the Brüning Cabinet had to pour hundreds of millions of marks in one shape or form to save the bankrupt landowners from foreclosure and ruin.

2. The Centre at a meeting yesterday evening adopted resolutions indicative of uncompromising hostility to the new Government. They endorsed

¹ Not printed. This telegram summarised the declaration issued by the German Government on June 4. This declaration (i) referred to the position to which Germany had been brought by the Treaty of Versailles, the world economic crisis and the 'mismanagement of parliamentary democracy', (ii) alleged that the moral fibre of Germany had been destroyed by 'the propagation of atheistic Marxist doctrine', (iii) stated that in the questions of disarmament, reparation, and the world economic crisis, the German Government would try, in cooperation with other nations, to 'obtain absolute equality of political freedom and the possibility of economic recovery'.

afresh in the most emphatic manner their approval of the policy pursued by Dr. Brüning, a policy which was 'so badly interrupted to make way for an experiment for which the party cannot accept any kind of co-responsibility.' The party expressed their absolute confidence not only in Dr. Brüning, but in Herr Stegerwald, and declared that they were determined to uphold the system of parliamentary responsibility.

3. The Bavarian Centre (or People's party as they are called) are, if anything, more incensed than the main body, and it is long since the two divisions of the Catholic party in Germany have been so united. The Bavarian section of the party, which for practical purposes represents the Bavarian Government, have announced in threatening tones that they are not prepared to tolerate experiments with the Constitution at this moment, and that if any vital decisions are to be reached Bavaria will insist on her rights. 'When the time comes Bavaria will be there,' writes the official organ of the Bavarian People's party.

4. The more moderate provincial newspapers dislike the assertion in the Chancellor's programme that the Brüning Cabinet never got beyond a feeble attempt to cope with the position which they found on assuming office. Herr von Papen is reminded by many reasonable newspapers that even the notorious 'system' itself had to take over the legacy of the bankrupt Imperial régime after the defeat of 1918, and that the system did at least maintain the unity of the Reich.

5. The immediate plans of the new Government seem to be extremely vague. Reverting to pre-war procedure the Chancellor called upon the Prussian Government two days ago to take immediate steps to form a new Ministry. There was no response to this rather high-handed procedure. Dr. Hirtsiefer, the Centre leader in the Prussian Diet, who is now acting Prime Minister in Prussia in place of Dr. Braun (who has left Berlin 'on extended leave') resented the Chancellor's interference, all the more so as the new Government attempted to put pressure on Prussia by refusing to pay a sum of 100 million marks to which Prussia has a claim by virtue of an agreement concluded with the late Government some time back. It is evident that there is not the slightest prospect at the moment of inducing the Centre to join a Nazi Government in Prussia and the Chancellor seems to have accepted a rebuff. The proposal to appoint a Reich Commissioner to govern Prussia in default of a Constitutional Government, another proposal of the new Government, has also aroused the hostility of the Centre and for that matter of the Hitler party. There appears, indeed, to be no legal justification for interference by the Government of the Reich, especially in view of the fact that many of the larger Federal States have been and are being governed by defeated Ministries which cannot be replaced for political reasons.

6. The Government are credited with numerous schemes of a less enterprising nature, notably reform of the franchise (by raising the age of voters to 25). The consent of the Nazis would not readily be obtained for this step. Again the idea of reforming the structure of the Reich by amalgamating the administrations of Prussia with that of the Reich appears to be again finding

favour. Here again South German opposition is likely, as stated above, to be encountered.

7. I am told on good authority that the Reichswehr Ministry is now toying with the Hitlerite idea of compulsory labour for the youth of the country as a substitute for universal military service. (See Mr. Newton's despatch No. 361² of the 18th May.) Either under the guise of a 'National Sporting Association', or under the cloak of labour conscription the young generation is to be brought into contact with the 'National Reconstruction Movement'. It is easy to see that the promoters of these plans have some form of conscription in mind which could ultimately be made to yield the same results as regular military conscription. Shortage of funds would seem, however, to be an unsurmountable obstacle to any serious scheme at the moment.

I have, &c.

HORACE RUMBOLD

² See No. 113, note f.

No. 131

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 16)

No. 430 [C 4950/235/18]

Sir,

BERLIN, June 9, 1932

I had an interview with Dr. Brüning to-day prior to his departure from Berlin on an electoral tour of Germany. There was no trace either in Dr. Brüning's appearance or manner of the crisis through which he had recently been. He seemed, indeed, quite cheerful. We did not, of course, discuss the circumstances attending the recent change of Government, but he told me one or two things which may be of interest to put on record.

2. He said, in the first place, that, had he remained in office, he would have appointed Baron von Neurath as Foreign Minister. He was glad that Baron von Neurath had been induced by the new Government to take that post and was certain that he would prove a very suitable occupant. Baron von Neurath's health also seemed happily to be re-established.

3. I asked Dr. Brüning whether he could give me a forecast of the course and results of the impending electoral campaign. He replied that it was impossible to do so. Only yesterday he had been present at a meeting of the Centre party, which had been attended by members from all over Germany. Not one of them had been able to predict the future course of events. Dr. Brüning did not, however, think that there would be any disorder either during the campaign or after it, and in this connection he emphasised the element of stability represented by the person of President Hindenburg. He would have been anxious had anybody else in those times occupied the Presidency except the old Field-Marshal. His references to the latter were sympathetic and did not betray the slightest bitterness.

4. Dr. Brüning showed great interest in the proposed international

economic conference and thought that this would be productive of good provided that the conference were kept small. I pointed out that, as the whole world was interested in the matters which would, presumably, come up for discussion at the conference, it would seem difficult to keep it small. The ex-Chancellor said that there was no time to be lost. Trade was shrinking month by month and some sort of international action should not be delayed beyond the autumn.

5. Finally, in reply to my enquiry, he expressed the view that the system of proportional representation had proved a failure in Germany, leading as it had done to a multiplication of parties. He also thought that the voting age, namely 20, was too young.

I have, &c.

HORACE RUMBOLD

No. 132

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 11)

No. 123 Telegraphic [C 4769/29/62]

BERLIN, June 11, 1932

Addressed to Paris No. 25, June 11.

Following for Secretary of State.

Minister for Foreign Affairs handed me today the following note in reply to the letter which you gave him before he left London.

'We welcome His Majesty's Government's suggestion that a joint solemn declaration should be made at Lausanne for the purpose of relieving the present political situation and are very ready to enter into discussion on matters. On many points we are also prepared to agree at once to the form of declaration suggested in the English draft. Point 5 seems however to be questionable. As set out in proposed draft it would mean *inter alia* that Germany again solemnly recognises the Treaty of Versailles and that she expressly undertakes in no way to work for a revision of any part of the treaty. This is impossible for any German Government. Object of political *entente* will be just as well attained if the emphasis is primarily laid on valuation of suggestions in point 6 which could perhaps in places be worded more precisely. It is also worth considering whether the whole declaration would not have a stronger political effect if the agreement to meet regularly in order to discuss political questions were confined to the Great Powers represented at Lausanne who could reserve the right to invite other Powers to take part from time to time.'

Repeated to the Foreign Office.

Lord Tyrrell (Paris) to Foreign Office (Received June 12, 9.00 a.m.)

No. 78¹ Telegraphic [C 4789/29/62]

Following from Secretary of State:

PARIS, June 11, 1932

1. Prime Minister and I have come to Paris today on our way to Geneva and Lausanne in order to discuss reparations and disarmament with French Ministers tomorrow. I think it may be useful if I give you for your own individual information lines on which we propose to work. Our interview tomorrow may bring out further considerations on which if necessary I will communicate later.

2. We take the view that governing object to be sought at Lausanne is final agreement between debtor and creditor States represented there. The economic crisis prevailing everywhere is so serious that the world is in mortal peril and this cannot be escaped by mere postponement or by face-saving formulae. Confidence cannot be restored by mere prolongation of moratorium as this would do nothing to remove the uncertainty which is one of the principal causes of the trouble.

3. Now it has become clear that there will be no further payment of reparations. Germany cannot pay at present and she will not consent to make a new promise to pay in the uncertain future. The choice therefore is between reparation payments ceasing without agreement and ceasing under an agreement to be negotiated at Lausanne.

4. His Majesty's Government are in favour of the latter course. It is useless to discuss plans for continuance of payment of a reduced sum seeing that both Dr. Brüning and present German Government have made it plain that no agreement on this point is possible.

5. Moreover insistence by Germany's creditors that she must be held bound by her previous promise will react most unfavourably upon these creditors when their position in relation to war debts is considered. Proper course is to insist that world cannot stand a continuance of these transfers of gold across frontiers which are a contradiction to healthy process of trade and exchange. It is not a question of ability to pay so much as the ending of conditions under which healthy circulation of trade has been strangled. We hope in return for a discharge from reparations Germany will feel able to give effective assurances for political truce in Europe which France will accept. This, in turn, will assist the policy of disarmament.

6. Our policy is by combining these elements to establish as a result of Lausanne an agreement for mutual discharge of governmental obligations so far as the States assembled at Lausanne are concerned. We are convinced that such a conclusion, announced without delay, would do more than anything else to promote world recovery.

7. We realise, of course, that this will raise the question of our debts to

¹ This telegram was addressed during the night of June 11-12 to H.M. Ambassadors at Washington, Berlin, and Rome, and repeated as No. 78 to the Foreign Office.

America but six months must elapse before next instalment is due. In the meanwhile good effects of an agreement at Lausanne should have begun to make themselves felt. The continent of Europe is America's most important customer. We should presumably make no approaches to Washington nor any anticipatory announcement on the subject until after the Presidential elections. We have noted Mr. Stimson's constant insistence of late that German reparations must continue to be paid and we infer that he realises what the position is bound to be if, as is inevitable, reparations cease.

No. 134

*Notes¹ of a Meeting held at the British Embassy, Paris, on June 11, 1932,
at 6.30 p.m. (Received June 13)*

[C 4833/29/62]

Present: Mr. Ramsay MacDonald, Sir J. Simon, Lord Tyrrell, Mr. Wigram, M. Herriot, M. Alphand.

Mr. MacDonald was glad of this opportunity to exchange views. He wanted to secure complete agreement; and he naturally came to the French first. The agreement which he would like would be a big settlement which would do credit to both countries. The situation was so bad that, unless France and Great Britain joined together and gave confidence and energy to the world, it was difficult to see how things could go on. The first question was debts and reparations. The subject had been studied in London for months, and many solutions had been suggested. The conclusion which had finally been reached was that the Great Powers must agree to wipe the slate clean. There were two considerations which had brought the British Government to this conclusion. First, if we said that Germany should pay a little in accordance with her capacity, America would come to us and say that we had established the principle of ability to pay; and if Germany pays a little, you can pay more. In fact, instead of giving the Americans the possibility of cancelling the debt we should be giving them the means of demanding it. America would ask for a large sum, and even friendly public opinion in Great Britain—and it was friendly—would say to the British Government that they must get more money from France. In these circumstances the British Government had concluded that the *coup d'éponge* was wiser and more economical than scaling down reparations. The balance, in fact, was not in favour of reduction but of wiping out.

The second consideration which inspired the British Government's conclusion was the fact that in this matter Germany must not be looked at alone, but the question must be considered as a whole. The British Government had examined the course of trade and the circumstances of trade in the various European countries, and they were all going down. They had consulted the

¹ These notes were made by the British representatives for the use of His Majesty's Government.

best economists, bankers and business men, and all agreed that though there were various reasons for the trade depression, one of the most important—one of the big reasons—was the transfer of big blocks of money not represented by commercial dealings. Real circulation must be restored; the process of transferring blood from one country to another, as from one person to another, was impossible. Once this artificial system of economics had been changed, other influences would come into operation.

Mr. MacDonald said that after much study the British Government felt that the best thing to aim at was agreement amongst the former allies in the first place; then certain concessions would be required from Germany. He wished M. Herriot to understand that there were, in fact, two stages, and though conditions had changed, the procedure and the method would be much the same as in 1924.

Sir John Simon said that the British Government felt that in order to secure world recovery an agreement must be reached at Lausanne. Everyone was looking at Lausanne; if there was agreement there, this fact would do much to restore the world.

Mr. MacDonald said that conversely if we did not get agreement at Lausanne the situation would be deplorable. He continued, in reply to an enquiry by M. Herriot, that the position of America in this matter had been given much anxious consideration by the British Government. The American Government would not come in at Lausanne, but neither France nor Great Britain must quarrel with America. The most effective steps must be taken to communicate the Lausanne decisions to America. America had told the European countries to put their heads together and tell America how they proposed to face their difficulties. In these circumstances an agreement at Lausanne should be embodied in a treaty which referred only to Europe; then this document would not be ratified until America and Europe were in agreement.

M. Herriot said that it was very important to know that the agreement would not become final until America had accepted it. There would be two operations; a European operation which would be subordinated to a later American operation.

Mr. MacDonald said that he did not think that any one Government should take upon itself to communicate the agreement to America. France would not do it, nor should Great Britain, but any communication made to America should be made by Europe.

M. Herriot said he understood.

Mr. MacDonald said that these matters must be carefully kept in mind. Further, they must be careful not to allow the American electoral opinion to settle the issue in this matter. The diplomacy of Europe must aim in the first place at touching the responsible people in America.

M. Herriot took note of this.

Mr. MacDonald said that in approaching America care should be taken not to say that in reaching its decision Europe was thinking only of Germany, as that would not be true. Moreover, if Germany were given as the ground,

America and ourselves would apply the same argument of capacity to the European creditor Powers. The real reason why we had reached this decision was a world reason. The present economic crisis could not continue indefinitely.

Sir John Simon said that if the Lausanne Conference reached this arrangement *now*, there would be time to fortify the serious opinion in America which would react in response to the action taken in Europe.

Mr. MacDonald said that we should have to come to an agreement, though he had not yet thought this out in detail—how what was done at Lausanne could at once be made effective in Europe—this was a question of procedure. Perhaps we should come to what would be the equivalent of a moratorium without calling it that.

Sir John Simon said that the British Government was working for an agreement at Lausanne. Germany would have to give something. The British Government thought that some assurance should be obtained, that no contentious political question would be raised for a period, say fifteen years. After all, Germany would gain considerably more by obtaining cancellation through an agreed arrangement than by cancellation by unilateral action. Therefore, it was only right that she should make concessions on her part.

Mr. MacDonald said that it was at this point that the Lausanne Conference commenced to dovetail into that of Geneva. If France and Great Britain could agree to some kind of disarmament programme, that would mean a saving for their budgets to compensate the loss implied by the non-receipt of reparations. Mr. MacDonald said that on this point he very much wanted a talk, when he would put forward certain proposals. He thought that the heads of the principal delegations should meet privately at Geneva so as to explore the disarmament situation unofficially. They could follow at Geneva the same method as that followed at the London Naval Conference, when the heads of delegations met each morning and discussed the business of the day.

M. Herriot understood the necessity of a final settlement of the reparations and debts question. He would do all he could to widen the conceptions of the members of his Government on this point. He well understood that more was necessary than a legal moratorium under the Young plan. The matter must be considered from an altogether wider point of view. Means must be found of enabling the nations to live better than now.

He wished to point out that if the Lausanne agreement was to be preceded by a declaration in favour of a final and complete settlement now and immediately, the French Government would have an impossible task. It was necessary to proceed by stages. Further, if Germany said at the beginning of the conference that she could not and would not pay any more, like Dr. Brüning a few months ago, the French Government would find itself in an impossible position. M. Herriot repeated that if Germany said that she wanted cancellation of reparations and that she would not pay any more reparations, she would turn what was really an economic into a political question. He would not be able to admit this. He himself would take care

not to say that he intended to remain within the framework of the Young plan. He wanted full liberty for everyone in this matter without any constraint. Between these two extreme positions they could meet at Lausanne and obtain a result. He would tell Mr. MacDonald his difficulties, as he had done in 1924.

Now to turn to the facts; there was one point in particular he wished to emphasise. The conference must aim at the re-establishment of real European equilibrium. We must not be tricked by Germany and allow her completely to change the existing situation to our disadvantage. He was not in favour of total cancellation; but this was a question for study. He felt that if Germany was freed too completely she would obtain economic advantages over Great Britain and France against which those countries would not be in a position to strive. For instance; he had studied within the last few days the German railway situation and, if Germany was freed of the charge of 600 million marks which the German railways had at present to bear, he was told that she would be able to lower her railway rates by 30 per cent. The British and French coal mines would have no chance against German coal exported under such conditions. But he was speaking quite provisionally. This matter could be studied in detail later.

He himself was not entirely convinced of Germany's good faith. He did not want German economy to be allowed to overwhelm the creditor countries. For instance, it would be quite unfair that French and British taxpayers should pay higher taxes than the German taxpayers. Again, a day or two ago, the German Ambassador in Paris had told him that the annual German reparations charge was 1,500 million gold marks and that the export surplus was 1,200 million gold marks. M. von Hoesch had claimed that Germany could not pay reparations in such circumstances; but M. Herriot had told him that even if it was only a question of the export surplus, he could pay something.

M. Herriot was ready to work with Mr. MacDonald for European equilibrium, but he did not want to reverse the situation and to put the chief burden on the shoulders of the creditor Powers. He had asked the German Ambassador in Paris why a moratorium was not sufficient. M. von Hoesch had replied that it was necessary to give the German economy full play. Germany must be freed of reparations in order to obtain loans with which to set her economy to work. To find work for the German unemployed the German economy must be working at full [? pressure]. M. Herriot had told M. von Hoesch that it seemed to him that Germany was trying to exploit the generosity of the creditor Powers and then to crush them. M. Herriot was quite ready to work for equilibrium in Europe, but he did not wish to transfer a disproportionate burden to French shoulders. This was the reason why he would not consent to total cancellation.

He turned to the question of the fifteen-years' truce. It was said that the purpose of this was to give the world confidence. Perhaps; but he had two observations to make. It would only be a new assurance of peace coming on the top of many others, the Covenant and the Kellogg Pact, for example.

He thought there were too many papers already, and the world had no confidence in papers. Paper had not the same value for Germans as for other people. The value of paper varied in different countries, as Belgium knew to her cost. Further, he would point out that a political truce for fifteen years might result in calling into question the duration of existing agreements.

Sir John Simon pointed out that the essential purpose of the truce was to prevent the renewed raising of matters of old controversy.

M. Herriot said that he was not refusing the truce. He was only making certain comments which occurred to him. To sum up, he would not admit any attempt at unilateral cancellation by the Germans, and he would not, so far as he was concerned, claim that any agreement reached must be within the limits of the Young plan and existing agreements. Between these two extremes he would work for a final and definite agreement, subject to a suspensory arrangement about America.

(At this stage the conversation was adjourned.)

No. 135

*Notes¹ of a Meeting held at the Ministry for Foreign Affairs, Paris, on
June 12, 1932, at 10 a.m. (Received June 13)*

[C 4834/29/62]

Present: Mr. MacDonald, Sir J. Simon, Lord Tyrrell, Mr. Wigram, M. Herriot, M. Germain-Martin.

Sir John Simon, in summarising the conversation of the previous evening for the benefit of M. Germain-Martin, said that the British Government had very carefully considered the question of reparations and debts. The first conclusion which they had reached was that agreement must be sought first with France and then with Germany. Their second conclusion was based on a study of the facts. They considered that Germany could not make any payment for the moment; and they did not think that Germany could pledge herself to agree now to make more payments in the future. Germany, if asked to do this, would repeat what Dr. Brüning had said, that the future was too difficult and too uncertain; and that promises in regard to the future had been made at The Hague which it had proved impossible to keep.

M. Germain-Martin said that he quite understood the position. The future was so uncertain that it was impossible for Germany to say what she would do. She did not want to break her contract, but the Basle report showed that she could not pay for the moment. She would not, it was to be hoped, say that she would refuse to pay; but that it was not wise to make further Hague agreements.

Sir John Simon thought it was unlikely that the German Government would take up a more moderate position in this matter than Dr. Brüning.

¹ These notes were made by the British representatives for the use of his Majesty's Government.

But France and Great Britain would not agree that Germany had the right to break her engagements.

M. Germain-Martin said that recent German newspaper articles did not contest the rights of the creditor Powers in this matter; they merely stated what was the position and what were the difficulties of Germany.

Sir John Simon agreed on these points. In these circumstances if an agreement was sought with Germany it was clear that it would have to be on the following lines: In fact, it would prove impossible to find a European agreement if the creditor Powers asked for the continuance of any kind of reparation payments, for Germany was not in a position to sign such a document. Further, if the creditor Powers try to find a solution in the direction of the reduction of reparation payments by the application of the capacity test, the British Government was afraid that there would be a similar demand by other Powers, whether in Europe or America, for the application of a similar test to France and also to Great Britain. British opinion was very friendly to France, but if reparations were reduced as the result of a capacity test, public opinion in Great Britain would ask that other debts be settled by the same method. If the creditor Powers applied the capacity test to Germany, other Powers would want to apply the same method, but with quite different results; for no one could pretend that the capacity of France and of other Powers was nil. That was the reason why the British Government wished to put an end to reparations instead of merely reducing reparations on the basis of capacity to pay. (See also paragraph 2 of page 2 of notes² of meeting of the 11th June, with other reasons given by the Prime Minister, viz., that payment, if made, would continue world economic disorganisation.)

M. Germain-Martin quite understood the situation; but France had to consider several aspects of this question, her position *vis-à-vis* Germany and her position *vis-à-vis* other nations. France attached great importance to the validity of signatures.

Mr. MacDonald said that he also had been seriously preoccupied by this aspect of the question.

M. Germain-Martin was very anxious to know about the position of America. He doubted if any French Government which accepted complete and final cancellation at Lausanne could survive.

M. Germain-Martin was anxious to know how the British and French views would be adjusted. The French Government were most anxious to do that. It would, in his opinion, be necessary fully to explore the situation at Lausanne after a preliminary decision which would give time for this. There were two aspects of the Basle report. Everyone was agreed that Germany could not pay for the moment; but the Basle experts were less certain as to the future. It was very necessary to give time for full exploration of the situation at Lausanne. French opinion would never understand a complete cancellation without careful study. If France did not want to agree at Lausanne it would be easy for her to take the Basle report and The Hague agreements and say that the conference must abide by that guidance and those

² Paragraph 2 of No. 134.

decisions. But France, like Great Britain, wished for a general reconciliation. Therefore the French delegation would go to Lausanne and listen to the Germans; but time must be given to study the definite and final solutions which were required.

M. Herriot said that questions of method and principle were involved. The two must not be confused. He had said on the previous evening that repudiation could never be admitted by the French Government; all were agreed on that point and that it was not in question. But the French Government were ready to seek and find a wider solution than the Young plan. He said this with all the more assurance in that the insufficiency of the Young plan was recognised by the Basle report. The French Government would not, therefore, be abandoning the Young plan in saying that they were ready to seek a wider solution than that for which it provided. Subject to these considerations the way was open for a European settlement of debts and reparations.

M. Herriot thought that it might be wise to cease to talk of cancellation and to talk merely of a *settlement*. At the point which the discussion had reached it would be clear that the French Government were not opposed to a search for this settlement. It was not yet possible to say when it would be made or if it would be accepted by Germany; but it was important to note that the French Government were not opposed to the attempt to find it.

What were the two conditions which wisdom and common sense suggested in the search for this settlement? The first was one on which it would be easy to agree, that the European settlement should not be accepted or ratified without a world settlement. The question of how the world settlement was to be secured was one which could be discussed later. The point on which all were agreed was that the European settlement would not be ratified—he used this word in spite of the fact that no German Parliament was in existence—until a world settlement had been obtained.

The second question was the method of procedure at Lausanne. No one could expect that a European settlement would be obtained in one or two weeks, for the scope of the work was too wide. In these circumstances it would be necessary to provide for a moratorium of some kind. The European settlement which was required was nothing less than the creation of an economic statute for Europe. It was necessary to conciliate the need of profound study which the conclusion of such a settlement would require with the need for an immediate moratorium. By what date was it necessary to have the general European settlement ready? He thought it would be difficult to bring it to the notice of the United States before the elections; and in any case he would like to know what were the views of British Ministers as to the most convenient moment to approach America. It was necessary to give a moratorium before the 30th June; and it was not possible to secure the general European settlement as soon as that. Therefore it might be wise to announce at once the decision of the conference to work for this settlement and to constitute all the necessary organisations to secure it.

Mr. MacDonald said that it was necessary to keep two matters in mind.

Europe could not continue in uncertainty as to the nature of the settlements which were required. Things were getting worse every day. We must give our business people confidence. It was impossible to ask them to continue in the present state of uncertainty; otherwise there might be serious consequences for private debts, &c. Therefore, without trying to specify a date, we must set to work on the problems which would have to be faced at Lausanne in such a way as to enable Europe to think that we mean to settle and to give the Governments and private producers, &c., confidence. It was no use merely giving a moratorium or people would say that was the usual result of conferences. Mr. MacDonald thought that it ought to be possible to obtain something which would have an important psychological effect within three or four weeks. Then committees of the conference could continue work on the various outstanding questions.

M. Herriot said that he had no intention to urge a dilatory procedure. It was simply a matter of gaining time and how we could best conciliate the necessity of giving a moratorium by the 30th June with the considerations advanced by Mr. MacDonald. When the discussion on the question of principle opened, he thought he could show that Germany was not so badly off as she pretended to be and that she might well present a certain danger for British and French interests.

M. Germain-Martin said that France had no intention of going to Lausanne simply to make new documents and papers. France was going there to obtain as speedily as possible the reconstruction of Europe and of Central Europe. British Ministers need have no anxiety about that.

Mr. MacDonald said that he was not afraid that M. Herriot was trying to delay matters. He only wanted to emphasise the need for taking steps to restore confidence at once.

M. Herriot referred to the organisation of the conference. He thought that the conference should say: (1) That Germany could not pay now, and (2) that it was going to try to find a European settlement and, if possible, a final settlement.

M. Germain-Martin said that the worst mistake of all would be to give Germany a position in the future which would prejudice the interests of the creditor Powers.

M. Herriot repeated that the conference must say first that Germany could not pay now. It could add that it was ready to seek a complete European settlement which, if things went well elsewhere, might become a final and definitive settlement.

Mr. MacDonald said that they were working on the same lines. Their thoughts were the same. His plea to the French Ministers was that so many declarations respecting intentions to find final settlements had been made that if care was not taken the man in the street and the banker and the counting-house man would say that the politicians were muddling matters again. The conference must wipe out this reputation and show that it meant to do business.

M. Herriot said that everything possible must be done, but the impossible

could not be achieved. A European settlement would not be accepted by France, unless something was conceded by the other persons concerned. He hoped to settle reparations, but he would not be followed by French opinion unless the European settlement was subordinated to the American attitude.

Sir John Simon said that he had always indicated this.

Mr. MacDonald agreed. The settlement which would be ratified must be a settlement which brought in America. But nothing would have been achieved at Lausanne, unless the big issues and questions were embodied in the European settlement.

M. Herriot agreed that it would not be sufficient if it was merely decided at Lausanne that reparations would be abandoned if America abandoned war debts. That would be a purely negative decision; but it must not be thought in France that the European settlement could become definite without America doing her share. The work of the Lausanne Conference must be loyal and just so that if ultimately difficulties arose, it might be clear with whom the responsibility lay.

M. Germain-Martin agreed. The work of the Lausanne Conference must be constructive and not amount to mere declarations of principle. But in the interest of everyone this constructive work must not be done without due consideration as to its results. He referred briefly to the position of the German railways.

M. Herriot said that he thought it would be necessary to decide: (1) to give an immediate moratorium, and (2) to declare that the conference would set to work to reconstruct Europe with the desire to conclude. It was not a question of a juridical moratorium. It was merely a question of not requiring reparation payments in July.

Mr. MacDonald said that the Lausanne Conference would immediately decide that as the 1st July was so close the creditors of Germany would agree to extend the moratorium. He said, naturally, that he spoke under reserve of further discussion with his colleagues in the Government.

M. Herriot said 'that the Lausanne Conference would have to find, under reserve of a universal settlement, a final settlement of the European problem'. All that it would be necessary to say as regards the moratorium would be that Germany had to pay nothing on the 1st July in order to give time for a general settlement to be effected. He turned to the question of the final settlement which would have to be studied at leisure, though he agreed that this should be found at Lausanne. The committees could, if necessary, be put to work and then the delegates could come back to Lausanne to approve their work. At that point it would be possible to consider the wider conference and the question of America.

Sir John Simon wished to be quite clear. The conference would open on the 16th June. Its work could not be completed by the 1st July. In order to give time for the work of the conference to be completed, the creditors of Germany would announce that no payment would be asked on the 1st July. As to the actual work of the conference he wished to know if it could be done at Lausanne.

M. Herriot agreed.

Sir John Simon referred again to the July payment and said that he thought it was unnecessary to speak of cancellation or suspension, but that the conference might simply say that as the 1st July was so close Germany would not be expected to pay.

M. Herriot thought this point might be reserved.

Mr. MacDonald said there was no difference of opinion on the point. The creditor Powers might possibly show the suggested formula respecting a moratorium to Baron von Neurath at Lausanne before the question was actually discussed by the conference. Otherwise a formula might be chosen which would not suit the Germans. He agreed that the formula must not prejudice any later settlements.

Sir John Simon shared this view. The formula must be carefully worded, and have no technical significance. Perhaps the conference might say that, in view of the fact that it was seeking a general agreement and in view of the 1st July being so close, the creditor Powers did not expect Germany to make a payment.

M. Herriot said that they were agreed to try and find a formula which did not prejudice the future. He would have to be careful because of his parliamentary critics.

M. Germain-Martin agreed on the principle. Germany could be told that she need not pay on the 1st July, but great care must be taken about the reaction of this declaration on the future. He mentioned, in particular, the question of deliveries in kind and of payments suspended under the Hoover moratorium.

M. Herriot said that the conference could seek a formula which would show that the moratorium had a purely suspensory character and that it did not compromise the future. The experts could look into it.

Mr. Macdonald thought that the easiest way might possibly be for the chairman of the conference to inform the conference that such an arrangement had been come to, and that it was not part of the business of the conference. But this suggestion could be considered.

(At this stage the meeting adjourned.)

Sir John Simon and M. Herriot then had a brief conversation alone about Austria. . . .³

M. Herriot communicated certain observations on the question of the political truce (Annex III).

(This second stage of the conversation was then closed.)

³ This conversation (and Annexes I and II) dealt with the question of French participation in a proposed loan to Austria.

ANNEX III TO No. 135

Note sur l'Intérêt d'une Déclaration collective des Gouvernements européens représentés à la Conférence de Lausanne

On trouvera sous ce pli une copie de la déclaration qui, présentée à la Commission d'Étude pour l'Union européenne par les Ministres d'Allemagne, de Grande-Bretagne, de France et d'Italie, a été signée le 21 janvier 1931 par tous les Ministres des Affaires étrangères des Gouvernements européens réunis à Genève.

Cette déclaration — dont l'objet était de 'ne pas laisser douter de la solidité de la paix en Europe', première condition 'pour améliorer la situation économique' — répond à des préoccupations identiques à celles qui font souhaiter qu'une déclaration soit établie à Lausanne. S'il devait en être ainsi, il conviendrait de la rédiger en termes plus précis que celle-ci.

1. Peut-être ne serait-il pas sans intérêt de rappeler, dans un premier paragraphe, les garanties de paix déjà obtenues, non pas pour répéter ces garanties, ni pour les affaiblir par une réaffirmation inutile, mais simplement pour en tracer le bilan fort honorable et montrer à l'opinion allemande qui, dans le feu de la poussée hitlérienne, pourrait les avoir oubliées, les limites que le droit contractuel en vigueur impose à la liberté de l'État. On pourrait se borner à citer :

- (a) L'interdiction du recours à la guerre résultant du Pacte de Paris.
- (b) Le fait qu'aux termes, soit des traités d'arbitrage de Locarno, soit de la clause facultative de juridiction obligatoire de la cour *qui lie actuellement dans leurs relations mutuelles tous les États européens*, le règlement de toute contestation sur une question de droit est obligatoirement soumis à l'arbitrage ou à la juridiction de la Cour.

2. Comme contre-partie à cette organisation en quelque sorte *négative* de la paix qui consiste dans le règlement des différends à mesure qu'ils surgissent, il serait sans doute de bonne politique de mettre en valeur l'accord établi entre tous les Gouvernements européens lors de la constitution de la Commission d'Étude pour l'Union européenne en vue de se concerter pour une action *positive* d'organisation de la paix et de restauration économique. Si les circonstances le permettent, il conviendrait peut-être de souligner que cet accord de principe se trouve en quelque sorte réaffirmé par la décision prise par la Conférence de Lausanne de constituer une Commission spéciale chargée d'étudier la réorganisation de l'économie européenne.

3. Les points 1 et 2 ci-dessus mentionnés ne constituent en somme que des rappels de situations existantes. Peut-être y aurait-il lieu d'aller plus loin et d'obtenir en faveur de la paix une garantie nouvelle.

De quelle nature celle-ci pourrait-elle être? Lors de la visite à Paris du Chancelier Brüning, à l'époque du Ministère Laval, on avait envisagé des

garanties de plusieurs sortes, notamment une trêve de dix ans, pendant laquelle les Allemands renonceraient à toute revendication tendant à modifier les traités. Toute garantie exprimée dans la forme d'une trêve paraît plus dangereuse qu'utile, car elle implique que, cette trêve passée, ces revendications deviendraient licites. Or, le mécanisme du Pacte a créé, par son article 19, une sorte de droit pour tous les membres de la Société des Nations de demander une modification des traités, droit fort difficile en fait pour des raisons de procédure à exercer, et qui joue dans l'ensemble de la machinerie le rôle de soupape. Cet article 19, dont on a vu souvent les inconvénients, a peut-être, par son existence même, permis aux éléments les plus raisonnables des pays vaincus de ralentir la campagne contre les traités. Il serait fort imprudent d'y toucher.

Une garantie supplémentaire, pour être acceptable par les Allemands et ne pas précipiter les réclamations que nous voudrions éviter, ne peut être conçue que dans des termes très vagues, et visant plutôt une situation morale qu'une situation juridique. Il faudrait sans doute s'en tenir là et ce serait assez que d'amener, par exemple, toutes les Puissances à réprouver les campagnes de toute nature qui risqueraient de compromettre l'état de sécurité et de confiance mutuelle nécessaire au succès d'un effort de restauration économique dont le plan est esquissé dans des termes très généraux au paragraphe 2.

Une déclaration de cette nature, si elle peut paraître, comme beaucoup de déclarations, un peu platonique, ne serait pas pourtant sans intérêt, si l'on songe à l'inquiétude causée ces temps derniers par les manifestations du Stalhelm et des groupements hitlériens dans la région de Dantzig.

Le 10 juin 1932.

Déclaration signée par les Ministres des Affaires étrangères le 21 Janvier 1931

Nous avons, pendant ces derniers jours, examiné et discuté entre nous les problèmes qui se posent à nos Gouvernements respectifs, et il nous est apparu clairement qu'un des obstacles à la reconstruction économique est le manque de confiance dans l'avenir, dû à l'anxiété qui règne au sujet de la situation politique. Cette anxiété a été augmentée par certains bruits émanant de milieux irresponsables sur la possibilité d'une guerre internationale.

Nous reconnaissons qu'il existe actuellement en Europe des difficultés politiques et qu'elles ont encore été accrues par l'instabilité et le malaise économique résultant de la crise générale. Le mieux que nous puissions faire pour améliorer la situation économique est de ne pas laisser douter de la solidité de la paix en Europe. En notre qualité de Ministres des Affaires étrangères ou de représentants responsables des États européens, nous tenons à proclamer que nous sommes plus que jamais résolus à nous servir du mécanisme de la Société des Nations pour empêcher tout recours à la force.

Sir H. Rumbold (Berlin) to Sir J. Simon (Received June 16)

No. 439 [C 4935/235/18]

Sir,

BERLIN, June 14, 1932

Since my return from leave I have been endeavouring to obtain further details of the circumstances attending Dr. Brüning's resignation and the formation of the von Papen Government. I have had an opportunity of discussing the situation with my principal colleagues, and members of my staff who are in touch with financial and other circles have made their contribution to this appreciation of the present situation.

2. In paragraph 51 of the annual report for 1931 it was pointed out that politically a difficulty for Dr. Brüning was that he was a Catholic eternally wearing a black coat in a Germany whose youth was rushing into brown shirts and two-thirds of which was Protestant. This difficulty, it now appears, was an additional cause of the strong move made against him. Not only the Hitlerites, but other persons active in the move, assert that the conflict between purely Germanic aspirations and the Church of Rome has been going on for 1,000 years, and that since the revolution the influence of the Church over such questions as the maintenance of minorities abroad ('*Deutschtum*') has consistently been hostile to national interests. This assertion, in my opinion, is going too far. These persons also assert that experience has shown that Catholic settlers in the Protestant East sooner or later succumb to the local priests and become semi-, or wholly, Polonised. This partly explains the hostility to the Brüning Government's scheme for eastern settlement. It was to be carried out by the Trade Unionist Stegerwald, who, it was alleged, would certainly have given preference to Catholics. Such settlements the Eastern landowners (and President Hindenburg himself) regard less as a means for dealing with unemployment than as one to maintain the German character of the population and to counter Polonisation. Catholic settlements they regard as a pure waste of effort.

3. Then there is 'the system', and here these people mean not only the Socialist system, but also that by which the Catholic Church through the association of the Centre party with the Social Democrats has been able to place Catholics in key positions and so to control influential and lucrative appointments that only Catholics need apply. It is noteworthy, for example, that in East Prussia, a Protestant stronghold, a great number of the higher administrative officials are Catholics; also that generally the system has led to widespread corruption cannot be denied. The landowners and their friends in Berlin felt that this system was an impediment to German unity and must be brought to an end, and that the only way to do this was to displace Dr. Brüning from the chancellorship. It was not so much his personal policy to which they objected, but more the internal complex which he represented; the main lines of his policy are still being carried on.

4. It would appear that Count Westarp was at first thought of as Dr.

Brüning's successor, but, chiefly owing to Hugenberg's opposition, this suggestion was not pursued. The President then thought of Dr. Bracht, the Lord Mayor of Essen, who is highly esteemed in all quarters, but the approaches to him broke down. It was only then that Herr von Papen was entrusted with the chancellorship, mainly in the hope that he would bring over the right wing of the Centre party to the support of the Government. But the Catholic Church once again proved too strong, and this particular manœuvre proved a fiasco.

5. Various attempts were made to fill the Ministry of Finance before Count Schwerin von Krosigk was thought of. The latter was, in fact, black-mailed into taking office, much against his will, by the threat of dismissal from his post in the Ministry of Finance. Neither Dr. Warmbold, the Minister for Economic Affairs, nor Count Krosigk are likely to rescue their Junker colleagues from their traditional ineptitude in economic and financial matters. The former is a pure theoretician, who never opened his mouth as long as he was in the late Cabinet. Count Krosigk is an excellent and clever official, but politicians who have worked with him on committees say that he always succumbs to pressure and that, having now taken office under a threat, he will be powerless to resist the majority of the Cabinet. One good judge, in fact, considers that the present Cabinet is a Cabinet of mutual deception. Herr von Papen thinks that he has scored off General Schleicher and Hitler, General Schleicher thinks he has scored off Hitler, and Hitler, for his part, believes that he has scored off both.

6. I have it on indisputable authority that Dr. Planck, who, it will be remembered, accompanied Dr. Brüning to England last year, and who has now been appointed Secretary of State to the new Chancellor, had for a long time past been spying on the late Chancellor on behalf of General von Schleicher and that Dr. Brüning's telephone was regularly tapped by the Reichswehr Ministry.

7. The new Government have been confronted with difficulties from the outset. They have to deal with the situation in the Federal States, on which I am reporting in a separate despatch. Their presumed intention of putting in a commissioner in Prussia has already aroused the fears of the three important South German States. Bavaria is up in arms at the idea that the ban on Hitler's storm troops is about to be lifted.

8. The Social Democrats expect the Government to pursue a decidedly anti-Labour policy by the reduction of unemployment relief and of other social services and by the deliberate weakening of the trade unions. Social Democrats, who are in touch with a prominent member of my staff, believe that such a course would speedily lead to strikes and to violent disorders in the towns and much bloodshed. This belief is not shared by Dr. Budding, the Regierungspräsident in Marienwerder (East Prussia), a Centre party Catholic and a Rhinelander, who has just been visiting the industrial areas of the Rhineland. He says that the trade unions are breaking down anyhow, under the pressure of those who take work at any wage. Employers, while agreeing with the Social Democrats that the Government intend to pursue

the policy mentioned above, do not anticipate disturbances. Dr. Solf, however, views with great apprehension the attitude of the Social Democrats, who, from being comfortably *bourgeois*, have turned revolutionary over night. This is a rather general view, and it is also reported that the real obstacle to a Socialist-Communist alliance is personal ill-feeling between the leaders. In a conversation with a member of my staff Dr. Solf also spoke of increasing discontent amongst the peasants.

9. It is only natural that, with the prospect before them of being eliminated at the forthcoming Reichstag elections, an attempt should be made by the middle parties to coalesce and form a party with Right tendencies. The 'Staatspartei' has been prominent in this development, but on the basis of opposition to the von Papen Government. Independently of these efforts, there has been an attempt, in which Dr. Solf and Herr von Kühlmann have played a part, to form a Conservative *bloc*, of Hugenberg Nationalists, People's party, Economic party, Treviranus group, &c., but this has broken down owing to Herr Hugenberg's obstinacy or stupidity. As a result, Dr. Solf himself and many of his friends will probably vote for the Centre.

10. Business circles seem to be bewildered. Some business men having no notion what the Government will do, fear that it will be something stupid, which will further depress trade and possibly endanger the currency. Others, however, including a prominent banker of Democratic views, having recovered from the first shock, now realise that the Cabinet contains some good men, who having the support of Hitler are likely for some time to play a prominent part.

11. For the rest, the Cabinet seem intent upon carrying on Dr. Brüning's policy. Even in rescinding the prohibition of the Nazi Storm Detachments, they are said to intend putting the detachments under the control of the Ministry of the Interior, which is not so very far from what General Groener himself had in mind (see my despatch No. 429¹ of the 9th June). A first glance at the new decree issued this morning gives the impression that it contains measures imposing further burdens, which the Brüning Government would have had difficulty in successfully putting through.

12. Many observers now in fact consider that since the change of Government there has been a slackening of the tension in the country which in the last stages of the Brüning Government was becoming unbearable.

I have, &c.

HORACE RUMBOLD

¹ No. 130.

CHAPTER III

The Lausanne Conference, June 16—July 9; the Anglo-French Declaration regarding future European Co-operation, July 13, 1932

No. 137

*Stenographic Notes of the First Plenary Session of the Conference,
Thursday, June 16, 1932, 10 a.m.¹*

Present:

M. Giuseppe Motta, President of the Swiss Confederation.

M. Jules Dufour, President of the Government of the Canton of Vaud.

Australia, Commonwealth of: The Hon. J. G. Latham, C.M.G., K.C., M.P.,
Attorney-General and Minister for External Affairs; Major-General
Sir Granville Ryrie, K.C.M.G., C.B.

Mr. J. R. Collins, C.M.G., C.B.E.

Belgium: M. Renkin, Prime Minister, Minister for Finance; M. Hymans,
Minister for Foreign Affairs; M. Francqui, Minister of State.

M. van Langenhove, Secretary-General, Ministry of Foreign Affairs;
M. Camille Gutt; M. J. M. Marx, Legal Adviser, Ministry of Foreign
Affairs; M. Maurice Frère, Financial Adviser, Belgian Legation,
Berlin; M. Georges Janson.

Canada: The Hon. G. H. Ferguson, K.C.

Mr. T. A. Stone, Second Secretary, Canadian Legation in Paris.

Czechoslovakia: Dr. Eduard Benes, Minister for Foreign Affairs; Dr. Stefan
Osusky, Czechoslovak Minister, Paris.

Dr. Josef Hladky, President of the Provincial Financial Administra-
tion, Bratislava; M. Karel Lisicky, Counsellor of Section, Ministry of
Foreign Affairs.

France: M. Edouard Herriot, Prime Minister and Minister for Foreign
Affairs; M. Germain-Martin, Minister for Finance; M. Julien Durand,
Minister for Commerce and Industry; M. Paganon, Under-Secretary
of State, Ministry of Foreign Affairs; M. Georges Bonnet, Deputy,
former Minister.

M. Rist, Honorary Vice-Governor of the Bank of France.

Ministry of Foreign Affairs: M. de la Boulaye, Minister Plenipotentiary,
Assistant Director, Department of Political and Commercial Affairs;

¹ The plenary sessions, and most of the other meetings during the Conference, were held at the Hôtel Beau Rivage, Lausanne. The file number for the Lausanne Conference documents is Confidential /14153* except where otherwise stated.

M. Alphand, Minister Plenipotentiary, Principal Private Secretary to the Minister for Foreign Affairs; M. Coulondre, Minister Plenipotentiary, Sub-Director, Department of Commercial Relations; M. Knight, Minister Plenipotentiary, Chief of Information and Press Department; M. de Felcourt, Minister Plenipotentiary, Secretary-General to the Delegation; M. Jacques Lyon, Legal Adviser; M. Gaston Lerverve, Technical Expert for Railways, formerly Commissioner on German Railways; M. Arnal, Consul-General, Acting Counsellor of Embassy, Berlin; M. Gaucheron, Consul, Assistant Private Secretary to the Under-Secretary of State.

Ministry of Finance: M. Parmentier, Honorary Director-General of General Movement of Funds; M. Lescure, Professor, Faculty of Law, Paris, of the Secretariat of the Minister; M. Seligmann, Doctor of Law, Assistant Private Secretary to the Minister; M. Bizot, Assistant Director of General Movement of Funds; M. Rueff, Financial Attaché, London; M. Moeneclaeu, Head of Deliveries Service.

Ministry of Commerce: M. Elbel, Director, Department of Commercial Agreements; M. Jean Proix, Secretary-General, Committee of Economic Action; M. Duchénois, Secretary-General, General Confederation of French Producers.

Ministry of National Economy: M. Hoschiller, Assistant Secretary-General of the French Delegation, Franco-German Economic Commission.

Ministry of the Interior: M. Poncet, Special Commissioner.

Ministry of Agriculture: M. Jules Gauthier, Honorary President of Section, Council of State, and President of the National Confederation of Agricultural Associations; M. Auge-Laribé, Secretary-General of the National Confederation of Agricultural Associations.

Germany: Herr von Papen, Chancellor of the Reich; Baron von Neurath, Minister for Foreign Affairs; Count Schwerin von Krosigk, Minister for Finance; Herr Warmbold, Minister for Commerce.

Herr Trendelenburg, Secretary of State, Ministry of Commerce; Herr von Bülow, Secretary of State, Ministry of Foreign Affairs; Dr. Melchior; Herr Gaus, Ministry of Foreign Affairs; Herr Ritter, Ministry of Foreign Affairs; Herr von Kaufmann, Head of Press Department; Herr Ronde, Ministry of Commerce; Herr Vogels, Department of Chancellor of the Reich; Herr Fuchs, Ministry of Finance; Herr Katzenberger, Press Department; Herr Vallette, Ministry of Foreign Affairs; Herr Woermann, Ministry of Foreign Affairs; Herr von Friedberg, Ministry of Finance; Herr Wingen, Press Department.

Greece: M. A. Michalakopoulos, Vice-President of the Council of Ministers and Minister for Foreign Affairs; M. N. Politis, Minister in Paris; M. J. Politis, Minister in Berlin.

M. B. P. Papadakis, Principal Private Secretary to M. A. Michalakopoulos; M. M. N. Palierakis, Head of Section, Ministry of Foreign Affairs.

Italy: Signor Dino Grandi, Minister for Foreign Affairs; Signor Antonio Mosconi, Minister for Finance; Signor Alberto Beneduce, Vice-President of the Bank for International Settlements; Signor Alberto Pirelli, Minister Plenipotentiary.

Signor Gino Buti, Minister Plenipotentiary, Secretary-General to the Delegation; Signor Guido Rocco, Minister Plenipotentiary; Signor Carlo Conti Rossini, Counsellor of State; Signor Paolo Grassi, Director-General of the Treasury; Signor Edoardo Lanino, Consul-General; Signor Giovanni Talvacchia; Signor Alberto Nonis, First Secretary of Legation; Signor Bernardo Bergamaschi, Secretary of Legation; Signor Marcello del Drago, Consul; Signor Giovanni Acanfora, Inspector of the Treasury; Signor Giuseppe del Vecchio, Head of Department, Ministry of Finance; Signor Alceste Antonucci, Head of Department, Ministry of Finance; Signor Giuseppe Piserchia, Head of Department, Ministry of Finance; Count Alessandro Falletti di Villa Falletto; Signor Andrea Zanchi; Signor Giovanni Bosio, Vice-Consul.

Japan: Mr. Shigeru Yoshida, Japanese Ambassador, Rome; Mr. Shigeru Kuriyama, Counsellor of Embassy, Paris; Mr. Juichi Tsushima, Financial Commissioner, London.

New Zealand: The Hon. Sir Thomas Wilford, K.C.M.G., K.C.

Poland: M. Auguste Zaleski, Minister for Foreign Affairs; M. Jean Mrozowski, formerly Delegate on the Reparation Commission.

M. Marjan Szumlakowski, Minister Plenipotentiary; M. Anatole Muhlstein, Minister Plenipotentiary; M. Josef Lipski, Head of Department, Ministry of Foreign Affairs; M. Georges Nowak, Chief of Division, Ministry of Finance; M. Emile Ruecker, Counsellor, Ministry of Foreign Affairs; M. Wacław Mohl, Adviser, Ministry of Finance.

Portugal: Comm. Fernando Augusto Branco, K.B.E., Minister for Foreign Affairs; Col. Tomaz Wylie Fernandes, M.C., formerly Minister for the Colonies.

Roumania: M. Alexandre Zeuceanu, Minister Plenipotentiary, Financial Delegate, Paris; M. Sarel Radulesco, Minister Plenipotentiary, Director of Economic Services, Ministry of Foreign Affairs.

South Africa, Union of: Mr. C. te Water.

United Kingdom: The Right Hon. J. Ramsay MacDonald, M.P., Prime Minister; The Right Hon. Neville Chamberlain, M.P., Chancellor of the Exchequer; The Right Hon. Sir John Simon, G.C.S.I., K.C.V.O., O.B.E., K.C., M.P., Secretary of State for Foreign Affairs; The Right Hon. Walter Runciman, M.P., President of the Board of Trade; The Right Hon. Sir Herbert Samuel, G.C.B., G.B.E., M.P., Secretary of State for Home Affairs.

Treasury: Mr. E. Rowe-Dutton, C.M.G., Financial Adviser, British Embassy, Berlin.

Foreign Office: Sir Arthur Willert, K.B.E., Press Officer; Mr. R. F. Wigram, First Secretary, British Embassy, Paris.

Dominions Office: Mr. P. A. Clutterbuck, M.C., Principal.

Yugoslavia: Dr. Voyislav Marinkovich, Prime Minister and Minister for Foreign Affairs; M. Constantin Fotitch, Minister Plenipotentiary, Assistant Minister, Ministry of Foreign Affairs.

M. Milan Todorovitch, Professor, Belgrade University; M. Radovan Matiachitch, Director, Labour Insurance Central Office; M. Vladislav Martinatz, Counsellor, Ministry of Foreign Affairs.

There were also present the secretaries and personal staffs of the various delegations and interpreters for the Conference.

THE proceedings opened with the election of Mr. Ramsay MacDonald as Chairman of the Conference, and with an address of welcome by M. Motta, President of the Swiss Confederation. M. Motta and other Swiss authorities withdrew after this address. Mr. MacDonald then spoke as follows:

We meet to-day under the shadow of the most ominous economic crisis which has ever afflicted the world in time of peace, and the whole world looks to us, as it has never looked to an international conference before, to find agreements which will help to put an end to its existing distress. Only a short time ago the Economic Committee of the League of Nations informed us that the value of international trade to-day is only half, or perhaps less than half, of what it was in the first quarter of 1929; that the number of unemployed has more than doubled; that from 20 to 25 million persons are now without work; and that the situation daily grows worse. What I wish to emphasise is that this is a world catastrophe; it matters not what colour of Government is in authority, the State is being impoverished, the incomes of nations are going down, the beneficent and humanitarian work which has been developed by some of them through many years has to be slackened if bankruptcy is to be avoided. The aid which the community can give to the individual has to be lessened and the standards of living and comfort which have become equivalent to civilisation itself to millions upon millions of our less fortunate fellow-beings are being steadily lowered by economic powers which the most liberal-handed and liberal-minded of Governments cannot for the moment control. Moreover, in order to protect their finances, State after State has had to resort to restrictions in their external trade which, unavoidable as an immediate necessity, have for the time being tightened the strangle-hold in which nations find themselves. This is not only entailing human suffering, but is disrupting the organisation and psychology of law, order and progress. I repeat that in this failure there is no France, no Italy, no Germany, no America, no Great Britain, apart from the rest of the nations. There is nothing smaller than a world, there is nothing less than a system, which is crumbling under our feet. None of us can stay out of the

work of restoration and reconstruction, because none of us can stay out of the miseries which are gathering about us. If it is proved here or elsewhere subsequently that we have been pursuing policies in violation of the simplest of the economic laws which govern the prosperity of States, of the necessary flow of international exchange, of the maintenance of economic prices and of the ability of consumers to consume, then surely every prompting of wisdom and commonsense compels us to return to better ways without delay and pay the temporary price which such a return will exact from us. I believe it can be done if we would have the clearness of vision and steadiness of nerve to do it.

To-day we have met to consider one part of the cause of our distresses, a great part of it, a pressing part of it—the financial inheritance of the war as regards its effect on world economy—and we must come to an agreement regarding it. This will not be the end of the work of the statesmen of our time, and that has been indicated in the terms of the invitation which has been addressed to you; but it is a necessary, and can be made a substantial, beginning, if we here decide that it should be so.

The question of war payments has been studied recently by two Committees of Economic Experts, one of which was set up after the London Conference of last July and the second was convened in December last at the request of the German Government. The reports of these two Committees are familiar to you, and I need only recall one extract which sums up the view of the second Committee that ‘the adjustment of all inter-governmental debts to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence, which is the very condition of economic stability and real peace’. They therefore appealed—and again I quote—‘to the Governments, on whom the responsibility for action rests, to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike’.

I can but endorse that appeal, the urgency of which has been reinforced by all that has happened since. To-day the method of reaching Government agreements by international conference is undergoing its supreme test. We must not forget in all our deliberations and bargainings that the world looks on, not only in need, but in impatience.

It is of the essence of our task that we must act with speed. An agreement reached quickly will have an effect a hundred times more beneficent than one painfully and imperfectly secured at the last moment of exhaustion after long-drawn-out, irritating and pettifogging discussions. Let us come to business. Despair is a fortress which must be carried by storm and cannot be conquered by a long siege. Despair rarely sinks quietly down to acquiescence. It enlists its decaying strength in frenzied devotion to those movements, not of Divine, but of satanic discontent, which pass hither and thither on the face of the earth in times of unsettlement and hardship such as these.

Our problem is not only one of technical details, but of broad principles.

One principle is surely very definitely before this Conference. Engagements solemnly entered into cannot be set aside by unilateral repudiation. That principle, I believe, is not challenged by anyone here. But it carries with it a corollary; and that corollary is absolutely essential to the recognition of the principle, viz., if default is to be avoided, engagements which have been proved incapable of fulfilment should be revised by agreement. Both sides to all agreements must ever be ready to face facts. And amongst the facts which we have to consider are not only those of whether the plans hitherto formulated have imposed impossible burdens, but whether and how they have contributed by their economic, financial and commercial unsoundness to the deplorable economic state in which the world now finds itself.

The invitation which has brought us here contemplates, as I have said, a continuation on a wider field of our work at Lausanne. I believe that a great opportunity now presents itself to us all to put our heads together to stop the active influences now making for general economic deterioration. If we are to do this, Europe cannot act alone. At no time has that simple commonplace, used too much for peroration purposes, the unity of all mankind, carried with it a more severely practical meaning than to-day, and we must all be gratified that after the present phase is over the United States has encouraged us to believe that it will co-operate in the examination of at any rate some of the wider problems and join with us in devising a policy for the encouragement of trade and the enrichment of the nations.

In the neighbouring city of Geneva much labour is being spent in trying to remove the crushing menace, both to the minds and the resources of nations, of arms. That is really part of our work. Success at Lausanne cannot be fully reaped without success at Geneva. Moreover, if statesmanship is to overcome the economic difficulties which are our chief concern here, it must secure a period of settled political tranquillity when nations putting their economic affairs in order may not be distracted by the dread of wars and rumours of war. At some point of our deliberations we may have to turn our minds to that.

In short, my desire is that with the gravity of our task in full possession of our minds, its magnificence should also give us courage of heart and determination of will. Men in public life like ourselves must think of public opinion, but in times like these we must never for a moment forget that great issues, even entailing great sacrifices, can be put to our people, and, instead of breaking into clamour and revolt, they will respond heroically and play their part nobly. It all depends upon us. And so my appeal to this Conference is to fear nothing but weakness, and to issue from these council chambers and from elsewhere wherever our further work is done bold proposals which by their very character will command the support of the whole world.

After Mr. MacDonald's speech, Sir Maurice Hankey was elected Secretary-General of the Conference. The meeting rose at 11.15 a.m.

*Stenographic Notes of the Second Plenary Session of the Conference,
Friday, June 17, 1932, 10 a.m.¹*

The President: The representatives of the Inviting States met yesterday afternoon and came to the conclusion that it would be advisable, for the time being, and whilst the opening statements were being made, that the Conference should sit in private, or, as we say in Great Britain, that it should sit as a Committee; that would mean the exclusion of the Press, and it was believed would give much greater liberty of expression. I put that to you as a recommendation of the representatives of the Inviting Powers. Do you agree?

Mr. Latham: Mr. President, has the Inviting Committee arrived at any recommendation to the Conference as to any communication subsequently to be made to the Press?

The President: Yes, this is just in the ordinary operation of the Conference. Those in favour?

(Agreed.)

Having got that decision, I want you now to make an exception to it. I have to inform you that I have just received a communication of much interest and importance affecting the future work of the Conference, which I propose to read to the Conference before the discussion begins. I am satisfied that the communication is one which the Conference would wish to be read in the presence of the Press, and I therefore, with your consent, would invite the Press to come in. Immediately the communication is read the Press will be asked to withdraw and the resolution you have just carried will become effective.

(Agreed.)

The Press will now be admitted.

(At this point the Press were admitted to the Conference.)

The President: I have to ask the forgiveness of the Press for such a short notice, but the document in which I think they will be very much interested, and which we think will be of the utmost importance, has only been put in my hands this morning. Last night we were not sure if we could make the announcement to-day, and therefore our generous friends of the Press will, I am sure, forgive the very short notice we have given them about this proceeding. Immediately after this is done the Conference will resolve itself into a Committee and we shall have to ask the Press to withdraw. This is the document:²

¹ The Principal Delegates present at the First Plenary Session were also present at the Second Session.

² A draft of this document was drawn up by the United Kingdom Delegation on June 15. Mr. Chamberlain and Sir J. Simon discussed the draft on the morning of June 16 with M. Herriot and M. Germain-Martin. The French Ministers suggested certain amendments to the draft. Further discussion took place on June 16, and, after Anglo-French agreement had been reached, the text was submitted to the other Governments concerned.

'The undersigned Governments

'Deeply impressed with the increasing gravity of the economic and financial perils which overhang the world and with the urgency of the problems which the Lausanne Conference has met to consider;

'Firmly convinced that these problems require a final and definite solution directed to the improvement of European conditions, and that this solution must be pursued henceforward without delay or interruption, with a view to its realisation in the framework of a general settlement;

'Noting that certain payments of reparations and war debts will fall due as from the 1st July next;

'Are of opinion, in order to permit the work of the Conference to proceed undisturbed, that, without prejudice to the solution which may ultimately be reached, the execution of the payments due to the Powers participating in the Conference in respect of reparations and war debts should be reserved during the period of the Conference, which the undersigned Governments intend should complete its work in the shortest possible time.

'It is understood that the service of market loans will not be affected by these decisions.

'The undersigned Governments declare that they, for their own part, are prepared to act on this understanding, and they invite the other creditor Governments taking part in the Conference to adopt the same course.

'Signed at Lausanne, the 16th of June, 1932, for the Governments of
The United Kingdom of Great Britain and
Northern Ireland: N. CHAMBERLAIN.

France: HERRIOT.

Italy: MOSCONI.

Belgium: J. RENKIN.

Japan: S. YOSHIDA.'

(The Press withdrew.)

Before the debate begins, I should like to inform you that, in connection with the document just read, I have received from the Belgian Prime Minister, M. Renkin, a short letter which it would be convenient for me to read to you now. The letter, which is addressed to me, is as follows:

'Mr President,

The Belgian Delegation, in signing the Declaration which will be read at the Plenary Session of the Conference to-day, the 17th June, feels it necessary to state that this Declaration cannot affect the execution of the agreement which was concluded between the German and Belgian Governments on the 13th July, 1929. The obligations which result from this Convention do not constitute a Reparation nor a War Debt. I would ask you, Sir, to be so good as to communicate this letter to the Conference after reading the Declaration by the five Powers.

(Signed) RENKIN.'

I should say that this letter, of course, refers to the agreement between Belgium and Germany about the marks, and is written merely for the purpose of clearness of explanation, and neither in the form of, nor with the intention of being regarded as, a reservation.

Herr von Papen: I desire to make the following observation in regard to the remarkable statement which the President has just communicated to us:

I have with the greatest interest taken note of the statement read to us. I have deeply appreciated the intention inspired by the words used. I welcome this declaration as the first visible proof of the firm determination of the Powers concerned to facilitate the work of the Conference and to take those comprehensive and final decisions which the present situation demands. I can only wish that the declaration will be understood in the same sense by the Powers represented at this Conference and by the whole of world public opinion. It would indeed be fatal if this hope were to be deceived.

Dr. Marinkovitch: I would like to say a word concerning the declaration of the five Powers.

The President: The declaration made by the five Powers is not business before the Conference. It is a statement made to the Conference for its information.

Dr. Marinkovitch: If I asked to be allowed to speak it was because the five Governments who signed the statement invited the other creditor Governments to adopt the same attitude. I thought it was a motion.

The President: An announcement by other Powers that they are going to sign is not, but a discussion on the part of other Powers about the document is in order, because that is a matter to be conducted privately amongst those who have signed the declaration. If any other Power wishes to announce here and now that it is going to sign, that declaration can be made, but there is no immediate hurry for it.

Herr von Papen: Allow me first of all, Mr. President, to thank you for having given me an opportunity right at the commencement of our deliberations to set forth the German point of view on the questions upon our agenda, and notably upon the question of reparations. In order to avoid any possible misunderstanding and so as to contribute to the elucidation of a point raised yesterday by our eminent President, I would wish first of all to make a preliminary observation. Neither in the memorandum of the 19th November, 1931, requesting the convocation of the Special Advisory Committee nor at the present time is the question raised of discussing the problem of reparations in its juridical aspect, or of casting doubt on the validity of the German signatures affixed to earlier agreements. Nobody will deny that the agreements signed at The Hague in August 1929 and in January 1930 were validly concluded. There is therefore no necessity to establish the fact. I do not want to-day to deal with the genesis and the historical development of the reparations problem. The only point which to my mind requires to be discussed afresh is the actual situation as it exists to-day. In the most remarkable statement which the President of the Conference made here yesterday, the task which falls upon the Conference

is, in my opinion, fairly and exactly defined. As the representative of Germany, I have no other wish and no other intention but to consider here, as between responsible and practical statesmen, realities as they confront us and to derive from them the inevitable consequences.

What are these realities? We are all aware of them, Gentlemen. The most important of them have, moreover, been recalled in the two speeches we heard yesterday. I venture nevertheless to deal also for my part with the unprecedented economic occurrences which have taken place in recent years and to examine them in certain particular aspects. In doing this I shall chiefly bear in mind the invitation which the President addressed to the Conference, namely, that we are summoned here to examine 'whether and how the plans hitherto formulated have contributed by their economic, financial and commercial unsoundness to the deplorable economic state in which the world now finds itself'.

Nothing can prove more clearly the catastrophic upheaval which has occurred during this period than a comparison between the world as it was, to all appearances at any rate, in 1929 and the situation to-day.

In those days there existed a system of international credit which appeared to function without friction and an active and fruitful exchange of capital from one country to another. Commercial relations between almost all countries seemed to be regulated on a solid basis by a clear and well-organised system of commercial treaties. Competent authorities, Governments, Parliaments, economic circles and public opinion were unanimous in recognising as unreasonable and in condemning any policy of isolation. Every country was ready to welcome the goods of other countries in well ordered exchanges. Industry worked at a profit. Agriculture, if not in Germany, at any rate in the majority of other countries, could live. The world opened itself wide to commerce. Banks evidenced a spirit of enterprise and granted credits to foreign countries. Investors were disposed to entrust their savings to foreign Governments. In the majority of countries unemployment was still at that time an unknown problem. Those were the characteristic features of the period during which the Young Plan was conceived.

What an abyss between the glowing optimism of those days and the pessimism and despair of to-day! None of the promises of that period have been realised.

The desperate situation which prevails to-day is evidenced by the number of 25 million unemployed who were mentioned yesterday. Unemployment has brought in its train, in the most highly industrialised countries, a system of monetary assistance which will constitute in the course of time an ever-growing danger to world order and the progress of century-old civilisation. In Germany this state of things has most strongly shaken the confidence of the masses in the good functioning of the capitalist system.

A certain number of States have already found themselves obliged to suspend their payments abroad. This constitutes a grave warning not to delay taking the necessary measures in order that other great countries may

not find themselves in the same position. I need not describe what would be the repercussions, the disastrous results on the world crisis of such further steps. In the present uncertainty there is no need to be surprised that the international circulation of capital and credit is, for the time, almost entirely arrested. The capitalists of wealthy countries, far from collaborating in a reasonable distribution of such capital, think only of withdrawing as rapidly as possible the credits which they have granted, and do so even though in their own countries capital can no longer find remunerative investment. The employer is often obliged, in order to make up his losses, to live on his capital. The capital which is in existence, and is destined to form the basis of fresh prosperity, shrinks steadily.

On the other hand, as a consequence of the increase in the value of gold, or as a result of the fall in prices, debtors are obliged to pay from 40 to 50 per cent. more, and in this connection private debtors and debtor States are in exactly the same position. If an improvement of the situation does not speedily occur, we must expect a general adjustment of debts to become inevitable.

There remain two facts of a general character which I would also like to deal with.

The world has had to pass through crises in the past. The Special Advisory Committee is right when it states that the earlier crises were transitory and that they were followed by periods of prosperity. In one essential point, however, the present crisis is different from earlier ones. Formerly we had to deal with crises resulting from a lack of equilibrium between production and consumption, and a period of two to three years was generally sufficient to re-establish equilibrium. But upon the present crisis of international exchange there has been superimposed a second crisis—an unprecedented crisis of credit. This credit crisis has causes peculiar to itself. The most important are the public international debts and political payments, which are contrary to all sound or reasonable economic principles. The crisis of international exchange will not be surmounted unless the credit crisis is also overcome, and the latter cannot be overcome unless the specific cause from which it results is ruthlessly swept aside. That is the first point.

The second point is this. Under the influence of political debts a complete displacement has taken place between debtor and creditor countries in the repartition of gold on the one hand and the exchange of merchandise on the other. Gold has accumulated in the two national economic systems which are creditors under the system of international debts, whereas Germany is to-day the only debtor country which is almost entirely lacking in gold. In the creditor countries gold has become sterile, and in Germany the absence of gold is causing a growing paralysis of the economic machinery.

On the other hand, the commercial balance of Germany has become favourable during the last two years, under the pressure of its external debt, which is closely linked with the political debts, whereas in former decades it was always unfavourable. In the same period a development in the contrary direction has taken place in the creditor countries.

The President of the Conference very rightly observed that the present crisis is a world problem and not one which concerns certain countries only. It is, nevertheless, fitting and necessary that I should speak here of the particular elements which have brought about in Germany a worsening of the crisis in addition to the universal crisis of exchange and credit, for this particular aggravation of the German crisis has brought in its wake fresh repercussions on the world crisis to such an extent that the Basle experts were right when they stated that the German problem is the central problem of the whole of the world's difficulties.

The German situation is characterised by the following:—

1. The high level of interest, which crushes agriculture and also industry;
2. The burden of taxation, which is so oppressive, in the opinion of the Special Advisory Committee, that it cannot be increased, but has yet been increased, in order to assure the very existence of the State, by the imposition of fresh taxes within the last few days;
3. The external debt, the service of which becomes ever more difficult by reason of the progressive diminution of the surplus of exports; and
4. Unemployment, which is relatively more widespread than in any other country whatever, and which constitutes from 20 to 25 per cent. of the population a burden on public funds.

What is particularly fatal is that an ever-growing number of young people have no possibility and no hope of finding employment and earning their livelihood. Despair and the political radicalisation of the youthful section of the population are the consequences of this state of things.

It has not been possible for Germany to repay private credits since the middle of 1931, although the report of the Committee on Private Creditors, dated January 1931, states that those credits were granted carefully, contracted in good faith, and were on the whole utilised reasonably. The service of interest and the redemption of external debts represent for the current year a sum of about $1\frac{3}{4}$ milliards of marks. The former reserves of the Reichsbank are exhausted. The reserves in gold and foreign currency of which the Reichsbank can freely dispose are no more than 390 million marks for a fiduciary circulation of 3,800 million marks, which means that the legal cover for the currency circulating in the country, which should be 40 per cent., is now no more than about 10 per cent. If in the next few weeks we are to fulfil our obligations, this small cover will become even more insufficient.

The foreign trade of Germany closed in 1931 with an excess of some 3 milliards of marks, but—and this has been already established by the Special Advisory Committee—this surplus was the result of abnormal factors, notably of the absolute necessity in which Germany found herself of maintaining at any price, in face of the large-scale withdrawals of foreign credits, the stability of her currency and of exchanges. The forced development of this favourable balance has led in all countries to protective measures against German imports, with the consequence that the excess of exports rapidly diminished in 1932.

In view of the fact that the prices of all goods have fallen by 50 per cent., as compared with the prices of 1928-29, the loan charges on private German debts abroad have alone reached almost to the level of the normal annuity contemplated by the Dawes Plan.

Germany could not by herself arrest this development. No international decision has been taken up to now by the responsible statesmen to arrest this development. The very wise initiative of President Hoover in June 1931 was inspired by the idea of giving the world a respite destined to produce a solution of the most urgent economic problems. This goal, nevertheless, has not been reached. Sufficient account has not been taken of the reality of economic laws.

I do not wish now to go into the details of the reports presented by the various Committees of Experts. It is necessary, nevertheless, that we should bear in mind their most important findings and recommendations when we examine the problems now before us. For my own part, I will confine myself to recalling once more the following points:—

The external debt of Germany, with its very heavy interest charges, is, for the most part, attributable to the transfers of capital and the withdrawals of credits which have been the consequences of the execution of the Treaty of Versailles and of the reparations agreements. Thus, the Special Advisory Committee finds that the 18 milliard marks which were borrowed by Germany from other countries after the stabilisation of her currency have been counterbalanced by an exodus of more than 10 milliard marks under the heading of reparation payments alone. At the present time, when we are beginning to convert into goods the value of money obligations, it is almost impossible to form an idea of the importance of the payments which have been made by Germany. I do not want to enter into a discussion of the question of what may have been the real value of those payments to the creditor countries which received them. It is natural that when goods to the value of several milliards are thrown on the market, there is not only a fall in prices, but there is also a non-economic utilisation of those goods in the countries which receive them. Therefore, the profit realised by those who receive the goods is considerably inferior to the loss suffered by those who provide them. In the final analysis, it is here that the problematic character of the system of reparations becomes apparent. The harm which the fulfilment of payments under the head of reparations carries with it for the country which makes those payments is in no way proportionate to the profit which the receipt of those payments can temporarily procure to the various creditor countries.

It is often said that Germany would become a formidable competitor with other countries if she were freed from her political debts. I am firmly convinced that those fears are based on absolutely erroneous considerations. The lightening of the budget charges produced by inflation, through the reduction of the service of internal debts, only constitutes an apparent alleviation of the burden. Inflation has also destroyed private fortunes and savings; indeed, the whole of the resources in capital which the German economic

system had at its disposal. The lightening of the budgetary burden was therefore illusory. A comparison between the fiscal charges in Germany and in other countries is problematical, because such a complete confiscation of fortunes as has taken place in Germany has not occurred elsewhere.

Inflation has, therefore, lessened the capacity for competition of the entire German economic system. The State and private economy have lost their reserves. The destruction of those reserves of capital was followed by the contracting of fresh debts too rapidly and on too large a scale. The consequences became intolerable to the national economy. Agriculture and industry found themselves faced with the impossible task of meeting interest rates of 10 per cent. and more for short-term credits, and only very little less for long-term credits. In addition, they are both crushed under the burden of taxation and fiscal charges. The present high level of public expenditure is to a large extent made necessary by social service obligations. On the other hand, the economic depression has automatically confronted the State with obligations which formerly fell upon private shoulders. The State has only assumed those obligations in view of its duty to prevent social distress and violent disturbances of public order which such distress threatens to bring about. For all these reasons, the German Government has gone to the very limit in the utilisation of its resources and reserves. Public and private economy are to-day once more at the point where they found themselves after the inflation, that is to say they are devoid of any reserves and find themselves faced with an unemployment problem unprecedented in history. It is obvious that an industrial debtor country devoid of reserves, as Germany is now, could not constitute for a long time to come a menace to its competitors.

Gentlemen, the history of reparations reveals itself to-day as an experiment which has been tried in ever renewed forms, but which has always resulted in the same failure. Thanks to their heavy sacrifices, the German people were able to make considerable payments to the creditor Powers. The advantage which those payments conferred upon the creditor Powers was, nevertheless, considerably inferior to the resulting damage suffered by the German economy, and, through the German economy, by the economic fabric of the whole world. Every time a reparations settlement involving the maximum of payments has been imposed upon Germany, the risk has been run of seeing whether that maximum was attainable or not. To-day the repercussions of that process upon the German system and upon world economy are manifest. The experiences of preceding years could not be better summarised than as follows:—

Reparations have proved themselves to be unrealisable and harmful. The experience gained in the experiment is enough to rule out further attempts in the same field. They would be certain once again to result in failure. All that Germany can hope for is that, in the course of several decades, she will be able to re-establish normal conditions, that is to say, economic security and a level of life acceptable to her population. I am fully convinced that

such a development would be made difficult for Germany, and that the general world situation would be far from improving if the world's economy were not now finally freed from the disturbances produced by political payments irreconcilable with sound economic views. At the outset, reparations were intended for the reconstruction of the devastated districts. Since then, they have had a contrary effect; they are not means of reconstruction, but have become means of destruction. I understand perfectly well that it is much more difficult for the creditor than for the debtor to detach himself from the view of these problems and discussions which has held the field for the last 10 years. The present time imposes on us imperatively the duty of leaving the past behind and of directing our thoughts to the future. One step lies between us and the abyss. The moment for action has arrived. In Germany we have once again attempted to concentrate the living and constructive forces of the nation in order to assure to the German people the bases of their life. The time for palliatives, respites and postponements is finally past. We have seen the results of these methods. The decisive effort must be made. The great historic task of this Conference seems to me to be this, to emerge finally from this fatal, vicious circle, which has left its imprint on the past, and to clear the way for a positive collaboration which alone can assure a better future.

M. Herriot: Mr. President and Gentlemen, the Delegates of the French Republic have come to Lausanne with the most sincere desire to collaborate in the work which has to be undertaken here of the economic restoration of Europe. They have listened with the greatest interest and the utmost consideration to the remarks made by Herr von Papen, the Chancellor of the Reich. Although their duty in the strict sense of the term is to defend the interests of France, they cannot be indifferent to the difficulties of other nations, and they would beg the Chancellor of the Reich to rest assured of the real concern which they entertain for the German people. They clearly realise that an understanding between France and Germany is an essential factor of European security, and that, although both sides are to be free to submit their arguments, it is necessary, in the interests of the nations, that the exchange of views should take place in an atmosphere of calm and study. On this condition alone can we restore tranquillity and confidence to the suffering nations.

We do not intend, moreover, to insist at length on the respect for contracts the legitimacy of which is recognised and of which Mr. MacDonald reminded us yesterday in such lofty terms. When we defend that doctrine it is because we believe it to be indispensable to the establishment of that international morale for which we have already on other occasions been working and on which we desire to see the new order based.

I thank the Chancellor of the Reich for what he said on that subject. We speak at all times not as exacting creditors, but as men seeking to understand the point of view of other nations as well as their own.

In order to assume and maintain our position, and to bring the interests of

France and Europe into harmony, which is our aim, it will be sufficient to recall the conditions under which it was decided to hold and make preparations for this Conference, which will pursue its labours under the benevolent presidency of Great Britain.

The origin of this Conference is the request made by Germany on the 19th November, 1931, to the Bank of International Settlements for a comprehensive examination of her situation.

In setting forth our principles, we shall, so as to be certain of our impartiality, follow the report of the Consultative Committee appointed on that occasion. To act otherwise, or to abandon, now, or during the course of the Conference, the guiding lines laid down by that document, would involve the ruin of the methods which we have so laboriously established.

The report of the Basle experts must, in our opinion, be our rule and our law; it is supported by the most eminent signatures, including that of the German representative. That is the first point on which, as we hope, agreement can be easily reached.

We therefore accept without reserve the leading conclusions of that report. We admit that the extent of the present crisis surpasses indisputably the 'relatively brief depression' contemplated by the Young Plan, in view of which depression the 'measures of safeguard' which it contains had been laid down. We further admit, as the German Chancellor has reminded us, that 'the German problem—which is largely responsible for the growing financial paralysis of the world—calls for concerted action, which the Governments alone can take.' That, we hope, is a plain statement.

We shall therefore examine in a spirit of confidence all the information which has been submitted to us.

We are likewise glad to establish the fact that the Lausanne Conference has already voiced the principle that a European solution can only be brought about as a part of a universal solution. 'Europe cannot act alone,' said Mr. MacDonald yesterday. The Experts' Report called for an 'adjustment of all inter-governmental debts', and the communiqué, which was issued at Washington on the 25th October, 1931, at the close of the Hoover-Laval conversations, includes this same principle.

But the report on which we base ourselves adds that 'in past years Germany has built up an immense and powerful economic equipment, capable of yielding a great return'. It goes on: 'The restriction of markets and the fall of prices have prevented her from utilising this equipment to the full. The activity of her factories is now necessarily reduced, but, although it is impossible to fix a date for the recovery of stability, which is still threatened to-day, it is none the less certain that this stability will ultimately be restored with the help of the measures suggested in Chapter IV.'

Germany, therefore, has great difficulties, but also great hopes, and we are far from regretting the latter fact.

The Experts' Report adds these words, which I wish to quote with scrupulous care:—

'Notwithstanding the exceptional character of the present crisis, there

is no instance in economic history of a crisis, no matter how great, which was not followed by periods of stability or prosperity. Just as it would be wrong to forecast a country's economic future on the basis of a period of prosperity, so it would be unjustifiable to judge its chances for the future on the basis of a period of depression.'

I have nothing to add to the text of the Experts' Report.

Gentlemen, I desire to invite with emphasis your attention to these documents. A document must be accepted or rejected in its entirety. Any other manner of acting would be arbitrary and unjust. We wish to examine present conditions with loyalty and come to the assistance of Germany. We desire to do our best for the future and retain the advice of the Experts which we have requested.

I have no wish, Gentlemen, to overwhelm you with figures. I would only, with your permission, quote certain in order to form a basis for a thesis which we believe to be one of impartial justice.

The cancellation of reparations, to which we have just been asked to agree, would reduce the burden of State debt on the German economic system in conditions which would involve the risk of granting Germany a distinctly privileged position. The table drawn up by the British economist Sir Walter Layton, an extract from the documents presented by the German Delegation at Basle—I have limited myself to citing documents of an international character only—furnishes the following figures. The amount of the comparative debts of Germany, France and Great Britain is put down thus, in marks:—

Germany: 12 milliards.

France: 51 milliards.

Great Britain: 130 milliards.

which would correspond at the present time to 105 milliards.

Here again I only rely on a document submitted at an international enquiry. I simply add as follows:—

The inflation of which Herr von Papen spoke just now has operated in France, although to a lesser degree than in Germany; it has left our industrial system with burdens from which that of Germany has been liberated.

The application of the Hoover moratorium, for one single year, has brought about in the French budget a deficit of about 1,800 millions, which the present Government, as you will learn soon, will be obliged to counter-balance by means of severe measures.

Let me take another example, remaining all the time strictly within the impassive realm of figures and facts, so as to avoid anything which might introduce the least atom of passion into the discussion. I refer to railways.

Is the charge imposed on the German railways by reparations, 660 million marks per annum, excessive?

It would not seem so, according to the Report of the Basle experts. On their showing, the excess of receipts over expenditure was, during the years

1925 to 1929, an average of 833 million marks, covering to a considerable extent the reparation charge. In 1930, in spite of the economic crisis which lowered receipts, the profit still allowed the reparations annuity to be covered by means of the utilisation, in part only, of the reserves of preceding years. From the 1st July, 1931, the application of the Hoover moratorium has spread the payment of reparations over a period of ten years posterior to the 1st July, 1933. If, in the future, all payments of reparations were to be suppressed, the capital charges of the German railways (shares and loans) would be brought down to about ten milliard francs, while those of the French railways are some 65 milliard francs, and those of the British lines are 100 milliard francs.

This state of affairs, which would be one of extraordinary privilege for the German railways, would allow them to grant considerable reductions in goods rates. In the case of goods such as coal, of which the weight is high in proportion to the value, it would become possible to lower the sale prices by as much as 15 and 25 per cent., as compared with present prices, and to secure a formidable advantage in the keen competition of the export markets.

We have not come here to ask, and we shall not ask, any favour. But, since we all wish to restore European equilibrium, we demand for each nation, in the future, the benefit of that equilibrium, and equal chances in the keen competition for a livelihood.

It is no less legitimate, in our opinion, to estimate what is, at the present time, with regard to reparations, the *de facto* state of affairs in regard to which the proposal of cancellation is advanced.

Under the Young Plan and the Hague agreements, the excess of the receipts of France over her own debts, exception being made of the service of the Young loan, amounts to some 360 million marks per annum. I do not wish to say anything more. I do desire to avoid any comparison which might appear unkind, even if it is not so. But it will be sufficient for you, Gentlemen, in making your investigations, to compare this figure with the other balances in order to appreciate the unrighteous excess of sacrifice which would be asked of France in proportion to the other countries under the cancellation doctrine. We would request the Conference, for purposes of later discussions, to be good enough to bear in mind this essential element of what they have appreciated.

Furthermore, Gentlemen, we must, in the opinion of the representatives of France, adopt a more lofty attitude; we desire to state that, for us, the reparations problem is not merely a Franco-German one. It is too easily forgotten, in the first place, that a cancellation of reparations would affect numerous other countries. There is a certain nation which, under the Hague agreements, has a right to a balance of some 70 million marks, and it has only been able to bear the Hoover moratorium thanks to a considerable French advance. To cite that example is to prove that the reparations problem raises and is a necessary condition of the problem of the entire European economic system.

As the Dawes (*sic*) Plan experts have stated, it is clear that a Germany whose economic system remained in a flourishing condition would not long be able

to resist a financial and economic crisis raging among the surrounding nations. In a word, if we are to secure our objective of the final restoration of Germany, other nations also must return to a proper financial and economic basis and must likewise be able to proceed with the normal commercial interchanges on which general prosperity depends.

France demands the general restoration of Europe. She has her own ideas and programme for that work of reconstruction, but of course she does not, and will not, impose any plan. Her only desire is that the Lausanne Conference should evolve such a plan, without which we believe our work would absolutely come to nothing. Our country, without passion or prejudice, but with the most sincere desire for European fraternity, derives from the observation of the facts and of the general situation the opinion that the cancellation of reparations would constitute no effective or fair solution, according to the view of the experts themselves, of the problem with which the Lausanne Conference has to deal. We are firmly convinced that the reparations and debts question plays a part which cannot truthfully be denied in the present world trouble, but this cause is merely one of the elements of economic disorder which must be remedied not simply by transferring burdens from one country to another, but by the association of efforts, to which task France, without any reserve, wishes to contribute. In our view it is a mistake to imagine that the cancellation, even outright, of reparations would bring about a return to the desired equilibrium. France believes that improved security would be an infinitely more sure means of creating that confidence which would give the necessary mobility to the circulation of capital.

If the Lausanne Conference, through our joint goodwill, increases that security, as certain phrases in the speech of Mr. MacDonald assure us, it will have achieved, Gentlemen, the most important of all possible results. There can be, of course, no political peace without economic peace, but similarly there can be no economic peace without political peace. This double truth must guide our labours.

For these reasons, steps, such as the modification of the régime of closed economic systems, which at present prevails in Europe, the loosening of the restrictions which paralyse international commerce and (probably) a restoration of the price-level of agricultural products in certain countries, would be much more certain to achieve the goal which we seek than the altogether too summary steps which have been suggested.

Once again we place on record, with the experts, that 'action is most urgently needed in a much wider field than that of Germany alone'.

Such, Gentlemen, are our views. I think that I have kept the promise which I gave you to speak in the spirit which must unite and create in us a sincere desire for fraternity. It is for us to give the nations a good example. We, the delegates of the French Republic, will defend the interests of France within the frame-work of European and world interests. We intend to take the present into consideration, and we desire to assist a great people to rise again. But, without departing from the programme sketched by the Experts' Report, as I think I have shown you, we intend to preserve the future.

Gentlemen, we ask only for the French Republic a part of that justice which it desires for all the nations.

Mr. Neville Chamberlain : Mr. President, I have listened with the greatest possible interest and appreciation to the speeches that have just been delivered by the representatives of Germany and France, speeches which, if I may say so, seem to me to be conspicuous alike for their sincerity and frankness and also for the absence of polemics. I should desire, on my part, in setting forth the opinions of the British Government, to follow their example, and, whilst showing an equally strong wish to say nothing provocative, yet to make clear what seem to us the essential features in the situation. I regard it as of happy augury that it should have been found possible, on the very first day on which we enter upon the business of the Conference, for the five Inviting Creditor Powers to affix their signatures to a document of the highest importance, for this document not only clears the path of progress for our future discussions, but solemnly declares the necessity of a final and definite solution of the problems which are involved in the present conditions of Europe. It proclaims our object; it pledges our united effort; and it establishes the conditions under which a solution may best be sought. Henceforth it will be our task to address ourselves to the discovery of such a solution.

In the opening address by the President of the Conference, to which we listened yesterday, he laid down two propositions for which he claimed general agreement. The first proclaimed the sanctity of international agreements which constitute the very foundation of peaceful and ordered relations between the countries of the world. And the second, which the President declared to be not only the corollary of, but essential to, the recognition of the first, was that, should circumstances so change as to require in the common interests of all some alteration in an international agreement, then it is both the privilege and the duty of the parties concerned to come together and by mutual agreement to endeavour to bring about the necessary modifications.

I do not think I shall be contradicted when I say that both these propositions are applicable to the conditions we are met to discuss. For while the German Chancellor has fully accepted the validity of the obligations undertaken under the Hague Agreement in respect of reparations, it is evident that circumstances have arisen which render it impossible for Germany to resume next month the payments which will then fall due, and we have now to set ourselves to consider what further steps should be taken to put our mutual engagements upon a new and a more satisfactory footing.

Upon this subject His Majesty's Government hold very definite and decided views, and I wish to emphasise the fact that they are the views not merely of a single party, nor even only those of a National Government, for in this matter there is no difference between the Opposition and the Government in the British Parliament.

In our opinion, then, and that of the vast majority of the people of the United Kingdom, experience has shown that the payment of these vast inter-Governmental obligations, which carry with them no corresponding return

in goods or services, cannot be exacted without consequences disastrous to the whole economic fabric of civilisation. We are all familiar with a regulation, frequently made necessary by the exigencies of modern traffic, under which vehicles are permitted to pass along certain streets in one direction only. Before making such a declaration we are careful to ensure that there are facilities also along some other street for the traffic to pass at the same time in the contrary direction, and if we did not take that precaution we know that presently we should find such a congestion of traffic at some point or other that all movements in both directions would be effectively blocked.

But what we know to be impossible in the case of vehicular traffic we have been trying to effect in the case of these one-way payments, and the results are only too apparent. While other factors have no doubt also operated, the attempt to enforce these payments without the necessary economic basis has, in our view, been largely responsible for the financial and economic troubles which have accumulated with increasing rapidity during the last two years. The President has reminded us of the truly alarming fact that during that period world trade has been reduced to half its volume, while unemployment has increased by tens of millions of persons who, with their families, have been compelled to seek assistance from their compatriots in order to sustain life.

Both Herr von Papen and the President of the Council of the French Republic have drawn special attention to the Report of the Committee of Basle Experts. I do not know that I should be inclined to attribute to that Committee quite all the authority which has been accorded to them by M. Herriot, for I have noticed that experts do not always agree, which leads me to doubt whether they can be invariably considered infallible. Moreover, I do not think that it is incumbent upon Governments, who must ultimately be responsible for the decisions, to surrender their judgment in this matter, even to a body of independent experts. Nevertheless, I would agree that we should pay careful attention to weighty utterances from men who have studied closely the subject upon which they have reported; and since quotations have been made from that Report, may I remind you also of these words, which I will read? The Committee say:—

‘We can recall no previous parallel in time of peace to the dislocation that is taking place and may well involve a profound change in the economic relations of nations to one another. . . . Since July last, for example, it has been evident that, if the crisis by which Germany has been overwhelmed were not remedied, it would spread to the rest of Europe, destroy the credit system so painstakingly built up and create profound repercussions in other parts of the world.’

We, too, subscribe to that view, and, in our opinion, the real problem we have to consider is not the capacity of one country or another to make these payments, but rather whether the making of such payments, and even the uncertainty about the future created by a liability to make them, do not constitute a standing menace to the maintenance of financial stability and

the freedom of international trade. Moreover, we are convinced that the crisis will attain proportions hitherto not even approached unless the Governments concerned, while there is yet time, take measures to deal effectively with the root cause which has been sapping the life of Europe.

His Majesty's Government in the United Kingdom occupy a special position in this matter. Not only are we a creditor of Germany, but we are also a creditor of other Governments here represented in respect of war debts. The sums due to Great Britain on this account amounted in the first instance to over £2,000 million, but, by the Funding Agreements which have been made, these debts have been scaled down to such an extent as to remit two-thirds or more of the original total owing to it. At the present time the annual payments which my country has to make in respect of its own war debts are covered as to about one-half by its share of German reparation payments and as to the balance out of our receipts under the war debt Funding Agreements. Nevertheless, owing to the delay in funding our war debts, we have not hitherto received sufficient from our debtors to balance the payments we have made, and, in fact, the total of our payments has up to the present exceeded the total of our receipts, after allowing for interest, by some £200 million.

To sacrifice our claim for this vast sum which we are entitled to receive is no light undertaking, but so fully convinced are we that only by radical measures can we restore that confidence without which the wheels of credit cannot be induced once more to revolve freely, that we should be prepared to take our share in a general wiping of the slate, provided that all other Governments concerned would do the same.

I feel it necessary to add one more observation, and it is this. His Majesty's Government cannot but be conscious that the financial stability of the greater part of the world is in danger, and that, if it is to be restored, there is no time to lose. If this Conference were unhappily to create the impression that it would content itself with any makeshift or temporary solution, or if it were to drag out its discussions in long months of delay, the disappointments which would ensue might well precipitate the final disaster. His Majesty's Government, therefore, cannot be content unless at least the foundations of a permanent settlement are laid without undue deliberation. To this end they are earnestly desirous of making their contribution, in common with all the other parties to the Conference, and, in spite of the burdens under which the people they represent are already labouring, they will not hesitate to make the further sacrifice of their legal claims which I have mentioned if by so doing they can aid the common cause.

I feel confident that in this spirit only can the problems before us be successfully solved and the first steps taken towards that return to normal conditions for which the world has so long waited in vain.

Signor Mosconi: It is with the greatest interest that I have listened to the speech made yesterday by Mr. MacDonald, our eminent President, and also to the speeches made this morning by Herr von Papen, the Chancellor of the Reich, M. Herriot, the French Prime Minister, and Mr. Chamberlain,

the Chancellor of the Exchequer. In all these statements it is obvious that the gravity of the present situation and the urgency of providing remedies are present to all minds. That, in the general distress, is a comforting sign, an evidence that the problems we are called upon to solve are ripe, not only in the conscience of nations, but also, I hope, in the intention of Governments.

The communication made this morning by our President that the five Inviting Creditor Powers had signed a declaration according to which all the payments due by the Powers represented at the Conference will be suspended during the course of our debates, constitutes a factor the importance of which has been rightly stressed by the speakers who have preceded me, and which has a very much wider bearing than would at first appear. The German Government will be relieved by all its creditors of the payments most immediately due arising from the war. There will be an effective lightening of the most pressing demands on its Budget. The labours of the Conference will therefore open in an atmosphere of sincere and constructive collaboration. This will only constitute a beginning which will not gain its full value until our final decisions resolve, in a spirit of equity and justice, the problems before us, but in the meantime it will increase our confidence in the issues of our labours.

All the speakers who preceded me have stressed the critical situation in which the world finds itself to-day and the economic depression which suddenly became aggravated in the summer of 1931. The various measures which have already been taken have proved powerless to arrest the constant progress of the depression. The economic life of all countries finds itself profoundly disorganised, while the chief branches of industrial production are working at an extremely reduced rate. The financial difficulties of the various countries are increasing. The quotations of industrial securities are collapsing and credit is being shaken. Government assistance to industries and financial establishments threatened by ruin, to agriculture and the unemployed, tends to become more and more the general rule.

In this situation, from which no country is immune, and which tends more every day to overwhelm the economic system, is there not some degree of hope?

Unless I am mistaken, for some time the conviction has been gaining ground everywhere that, far from facilitating a return to equilibrium and safeguarding the interests of each country, the path which the various Governments have been pursuing in the economic and financial sphere by multiplying in response restrictive measures of all sorts, has only precipitated the collapse of the international exchanges and further aggravated the depression. In this conviction—or rather this certainty—which at the beginning met with universal disbelief, but is now imposed upon us by the very weight of facts, we trust we see a symptom of improvement and a hope of a return to better things.

I should like to repeat here the central proposal of the declaration which was signed yesterday: 'That these problems'—the problems of the Lausanne Conference—'require a final and definite solution directed to the improve-

ment of European conditions, and that this solution must be pursued henceforward without delay or interruption, with a view to its realisation in the framework of a general settlement.'

It must be admitted that attempts to determine the causes of the crisis and to solve that crisis have not been lacking. It is only human nature if, in this work of research, passions and private interests have entered into play side by side with the objective element. According to the angle from which the problem was viewed, it was believed in turn that success had been reached in identifying and isolating the fundamental cause, if not the sole cause, of the present upheaval. Doctrinal controversies have multiplied, and it is needless for me to recall everything that has been said and written on the subject of mass transfers of capital without counterpart, of unlimited inflation of credit, of unchecked rationalisation, and of the faulty distribution of gold. The different interests involved—formidable interests some of them—have mostly sought to prevail over each other instead of agreeing to their common advantage.

On the basis of these different conceptions and diverse interests, proposals have been made from various sides, plans have been sketched, projects of reform have been elaborated, but all these have proved, one is tempted to say almost always, more ambitious than practical. Conferences of all sorts, expert examinations and enquiries have followed each other without interruption. But if the intentions were good the results have been lacking.

Under these conditions we are obliged to ask ourselves if the method which has been followed hitherto is the one in which we must persevere in order to find our way out of the difficulty in which the world finds itself placed. We believe that we must now decide to adopt the only measures likely to improve a situation which threatens to become hopeless. We have on the agenda of the present Conference the questions raised by the Report of the Basle Experts of the 23rd December, 1931. The attitude of the Italian Government on this subject is well known. It has been several times set forth by the Head of the Italian Government. It is my profound conviction that it is in that direction that we must seek the only possible and reasonable solution. The collaboration of the Italian Government is therefore already assured in advance for all the objects of this Conference. We have just given a fresh pledge of that attitude by signing with the other four Inviting Governments, namely, Belgium, France, Great Britain and Japan, the declaration which was announced this morning by our eminent President and to which I have already referred.

Once again the collaboration of the Italian Government will be inspired, as in the past, by a wide comprehension of the conditions of all the countries and by a spirit of sincere solidarity. It is the spirit which guided us in the London Conference of 1924 and in the two Hague Conferences of 1929 and 1930. The problems which are before us, and this is evident from all the previous speeches, do not affect one single aspect of economic and financial life; they are intimately linked with other problems which in their turn influence them. In the same way they do not affect one country in particular

or a few countries only, but all countries without distinction. The solution to these problems must therefore be sought in the framework and on the basis of the general economic situation and must be such as to prepare and accelerate its improvement. It must result in the advantage of all countries and not favour some at the expense of others. It must be inspired by true principles of equity and solidarity.

If we pursue our work in this spirit we shall do useful and effective work and we shall have cleared an important stage—I would even say a fundamental and decisive stage—in the way of the restoration of confidence and the economic reconstruction of the world. The economic interdependence of all countries, of which so much has been said, need no longer be stressed. We must now act in conformity so as to transform what has so often been proclaimed into concrete realities.

In this sense I think I interpret the general sentiment when I underline with great pleasure the declarations which have been made by the Chancellor of the Reich, the French Prime Minister and the Chancellor of the Exchequer. Those declarations, to my mind, constitute the most valuable pledge that we shall reach a solution of the problems before us and a happy outcome of our Conference.

The President: I propose to adjourn the business for this morning. A Press Communiqué will be issued of what has been done here. It will consist of the summary of speeches supplied to the Secretary-General by Secretaries of the various Delegations.

I have before me the names of two speakers, Mr. Yoshida and M. Renkin. Would Delegations who wish to express their views before the end of this part of the Debate be good enough to send in the names of their speakers when we resume this afternoon?

I should like to consult you about the hour of resumption; 4 o'clock, I think, has been generally suggested.

(Agreed.)

(The meeting rose at 1.10 p.m.)

No. 139

Stenographic Notes of the Third Plenary Session of the Conference, Friday, June 17, 1932, 4 p.m.¹

Mr. Yoshida: The Japanese Delegation has followed with the utmost interest and the closest attention the speeches made by the President of this Conference yesterday and by the honourable delegates of Germany, France, Great Britain and Italy this morning. The observations they have made on the present economic and financial situation are so comprehensive that we have nothing to add.

¹ The Principal Delegates present at the First Plenary Session were also present at the Third Session.

Needless to say, the present depression, unprecedented in history, embraces every country, both East and West, and deep at the root of this world crisis lies a lack of confidence, which becomes greater day by day. Unless we take immediate measures to turn its course, we fear we shall inevitably be led into an unparalleled disaster.

Standing on the common front against the present world-wide depression, the Japanese Government is greatly concerned to find an effective solution to the problem of Reparations, together with other financial and economic problems. To achieve the aims for which this Conference has been convened, it is imperative that no stone be left unturned.

The Japanese Government is prepared to give its whole-hearted co-operation and to offer its entire support for the shaping of such plans as may be considered to afford an effective and equitable solution of these difficult problems.

M. Renkin: We were happy to hear this morning an affirmation on all sides of the necessity imposed upon this Conference of finding solutions capable of ensuring the rehabilitation of the world's economic life. The profound distress in which we are now living, if it were prolonged, would lead to catastrophes.

We have readily participated in the declaration read by our esteemed President at the commencement of this morning's sitting, which is directly inspired by the conclusions of the Basle Experts.

We cannot, however, leave out of mind the future and the return to a normal order of things, and for that purpose it is expedient to establish a final settlement.

The Belgian Delegation enters into this discussion with two pre-occupations.

The first concerns our own interests, and is our care for the rights which international engagements confer on us, and upon which the equilibrium of our public financial system is based.

A year ago, while in a spirit of solidarity we associated ourselves with the proposal of the President of the United States to suspend for one year the payment of all inter-governmental debts, our Government was careful to recall the fact that Belgium preserved her imprescriptible right to reparation for the damages which she had suffered. That right, by agreement with all the States interested, was recognised as one of the fundamental conditions of the re-establishment of peace, and nobody ever contested the special situation which it conferred on Belgium. The general suspension of inter-governmental debts, however, involved us in consequences which were particularly prejudicial. Among the countries affected by this measure ours is the one upon which the greatest sacrifice, relatively speaking, was imposed.

The cancellation of reparations, which cannot be conceived without an equivalent annulment of all other inter-governmental debts, would render that sacrifice final. It would impose upon the country extremely heavy burdens precisely at the very time when the obstacles which from all sides

are clogging her commerce constitute a very grave menace to her national economy.

Nevertheless, the Belgian Delegation does not fail to recognise the necessity of an adjustment of all inter-governmental debts in such a way as to ensure that the serious difficulties with which the world is now at grips should be taken into account. It shares, however, on this point the opinion which was expressed by the Basle Advisory Committee, which said that no solution could be considered as satisfactory which, while lightening the burden which weighs on certain States, would add unjustly to the burdens of others. The settlement of the reparations problem will only lead to the pacification which is desired if it is based upon the principle of equity.

Belgium is not only hit by the suspension of reparation payments due to herself; she is also deeply affected by the world crisis. Thus, to her own particular preoccupations, are added those imposed on her by solicitude for the general interest, which demands solidarity and agreement among the nations. According to the striking expression of M. Herriot, the important thing is that we should get out of the system of economic barriers. It is necessary that an essentially constructive principle should govern the labours of the Conference.

It is in that spirit we shall participate in its deliberations. We shall take our part in the concerted action on which depends, in our view, the common welfare and the return of prosperity.

Mr. Latham: Mr. President and Gentlemen, it would be a difficult thing, indeed, to exaggerate the importance of this Conference and of the Geneva Conference on Disarmament. The Geneva Conference has not yet succeeded in reaching any agreement, though it has been sitting for over four months. The result is a widespread and natural feeling of disappointment. This Conference must not follow the course of the Disarmament Conference. The world says to us: 'Succeed or fail; if you do not succeed promptly, you fail.'

I represent here Australia, one of the smaller countries of the world so far as population is concerned, but our interest in this Conference is very real, indeed, Australia is suffering acutely from the economic depression of the world, and among the causes of that depression war debts and reparations play a great part. Behind the economic problem there is a human problem. We must learn to live together. We live in one world, not in a number of different worlds. Distress and suffering spread from one country to another. If prosperity is on a real basis it also will spread from one country to another. The prosperity of one country cannot for long be based upon the failure or distress of another country. The recognition of these facts, I venture to suggest, must be the basis of any solution of the present problem. These facts may be recognised in words only or in action. We hope that this Conference will recognise them in action, swift, definite and decisive. Political parties in Australia are acutely divided, but I know that I speak for all of them when I say upon this issue as the representative of the Commonwealth of Australia I ally myself unreservedly with the Chancellor of the Exchequer of Great

Britain; we ask for a wiping of the slate. We would lose as a result our share of reparations. Frankly, we do not now value it at any great amount. Our War Debt would remain—originally over £300 million. We have spent from revenue on account of the Great War about £400 millions. These burdens would continue, but we would gain in the contribution which the cancellation of these obligations would make to the restoration of economic vitality to the world as a whole. This would help us with our fellow human beings to return to prosperity.

I strongly support the proposal made on behalf of Great Britain.

Commandant Branco: The Government of the Portuguese Republic accepted willingly the invitation extended to it by the Inviting Powers to participate in this Conference.

Portugal, in principle, has never refused to collaborate in any international action to further world interests; in this special case it is our duty to follow attentively and to defend, if required, the legitimate interests of the country we represent, when they are the subject of discussion or even modification.

If, for the benefit of the common work of reconstruction, imposed by the gravity of the present crisis, sacrifices are demanded from all Powers, great or small, we are willing to take our part; but we feel sure that no charges will be imposed upon us which might do serious harm to our national economy, balanced at the cost of heavy sacrifices heroically borne by the whole of our people, which in a perfect unity of sentiment with its Government is working hard for the rehabilitation of the country's finances and commerce.

Responding to the appeals, made in the name of international solidarity, to come to the rescue of nations in economic and financial distress, Portugal hastened to take part in the elaboration of the plans and the grant of previous moratoria; it has thus directly contributed to the alleviation of the crisis that threatened to bring about the economic collapse of certain countries.

In an indirect way Portugal's contribution to the maintenance of European economy has been still more important; having through her own efforts succeeded in balancing her budget—a *rara avis* in the world—and progressively put her economic system in order, Portugal has thus eliminated the risk of one more nation with an unsound economic system being added to the list of those in danger which prevents the great crisis being remedied.

Portugal's situation as regards the problem of reparations and inter-governmental debts is quite special as regards one part of the problem, although it is identical with that of most of the other countries in respect of the remaining part of the question. For the complete settlement of the problems we have to deal with, we cannot but support the views of the speakers who have stood for the application, in its general lines, of the report of the experts appointed at the request of the German Government.

Not only have the experts studied the causes of the crisis and its consequences in a remarkable way; their proposals contain solutions which may constitute efficacious remedies for the evils under discussion.

We cannot refrain from subscribing to the eloquent words of our eminent

President regarding the respect due to treaties, a statement which with pleasure we saw confirmed by the German Chancellor and the French Prime Minister.

Treaty provisions and the findings of arbitral tribunals must be regarded as sacred obligations by both Governments and peoples, for both constitute the essential foundations of the edifice of peace which we are endeavouring to build upon the ruins of the war.

I venture to point out that in the proposals for cancellation to be submitted to us the special case of certain contracts now under execution will have to be considered, as their suspension would entail serious prejudice to us.

We are ready to examine any proposals which may be made here.

Dr. Marinkovitch: As is shown by the statement of the Chancellor of the Reich, the question before us is not a question of law, but one of economic opportuneness. In this great economic world crisis, one of the elements of which is the burden of inter-governmental debts, the question is to find such a solution of the problem as may do away with this element of disturbance and make it possible to find other measures which would contribute to alleviating the crisis and overcoming it in the quickest way possible. It is well understood that to this end we must all be ready to make sacrifices, but those sacrifices must be reasonable ones, for it would scarcely be logical if, through arrangements made in order to help certain States which, by paying reparations at their present amounts would be placed in an economically impossible situation, other States should be thrown into financial and economic difficulties from which they could not emerge.

We are conscious of the fact that Yugoslavia has not the same importance as Germany in the world's economic system. The economic disaster in our country would be far from producing in Europe and the world generally consequences comparable to those which would result from the economic ruin of Germany, but, in the first place, it is certain that our economic ruin would not fail to involve calamitous consequences all round and that the Conference must take this into account. In the second place, we have morally the same right to require that one should take this fact into account as if we were a large State; the more so as our difficulties have not the same importance in the world economy, and the amounts in question are correspondingly moderate.

According to the Young Plan, we have a balance of about 70 million gold marks due to us for reparations. This balance did not serve either to balance our Budget or to cover our ordinary budgetary expenses. To the extent that it figured in the Budget it was used to cover annual payments on reconstruction loans and for the expenditure which had to be incurred on reparations account and which figures under that heading in the Budget. These receipts represent an important element in our national economy. At any time the loss of this sum would cause a serious lack of equilibrium in our country, but in this time of crisis it would have economic consequences the gravity of which it would be impossible to foresee. Our country also is feeling keenly the economic crisis. Being an agricultural country, it is severely affected by

the catastrophic fall in prices of agricultural products and by the diminution of our exports which, within the last few years, have fallen from 800 million gold francs to less than 400 millions. We consider that we have the right to expect the Conference to take this fact into account and to make arrangements of such a nature as to allow every State participating to emerge without economic disaster or the ruin of its credit from the difficult crisis in which the world finds itself to-day.

In this hope we are ready to collaborate and to accept, in a spirit of co-operation, the sacrifices in our power, while demanding that the same principle shall also apply to the situation of our country.

M. Zeuceanu: The Government of Roumania takes part in the Lausanne Conference in the hope that from its labours there will result measures calculated to alleviate the crisis from which Europe is suffering and to secure a betterment in the world generally.

Imbued with a spirit of co-operation, Roumania is ready to collaborate, to the utmost of her resources, in the work of economic reconstruction to which the Prime Minister of Great Britain alluded in his authoritative opening speech.

The Roumanian Delegation will spare neither effort nor spirit of conciliation, being certain that the same spirit is animating the other Delegations, and that the result will be the adoption of measures which will improve the economic situation in general, and have salutary effects on that of Roumania.

In passing from the Dawes Plan to the Young Plan, Roumania has already agreed to considerable sacrifices as a reparations creditor.

As a result of the reduction of the annuity which the Dawes Plan ascribed to Roumania, my country has to-day a debit balance as regards the charges which the State has assumed on account of political debts and the charges resulting from the peace treaties.

The annuity provided by the Young Plan leaves the reconstruction of the devastated districts and the reparation of private damages as a charge on Roumanian economy, without any counterbalancing item under the heading of reparations due to it.

Bearing in mind its legitimate rights and those of its nationals, Roumania is ready to collaborate in a general and final arrangement which should take account, on the one hand, of the burdens which weigh upon the State on account of political and private debts and, on the other hand, of the reparations due to it.

Nevertheless the Roumanian Government, sharing on this point the opinion of the French Prime Minister, are under the impression that the solution of the reparations problem, in a manner equitable to all parties, is not sufficient either to secure an appreciable improvement of the general economic situation of Europe or to remedy the crisis from which the world is suffering.

The customs barriers and the restrictive measures taken by the majority of States in order to assure their own safety constitutes an impediment to the liberty of commercial exchange, whereas the remedy would be, on the

contrary, the adoption of general measures of greater liberty capable of helping the economic situation and, as a result, helping the countries which are suffering most from the existing restrictive measures.

The fall in the value of agricultural products and raw materials, which constitutes the principal cause of the present crisis in Roumania, will only be remedied by a concerted effort to restore the countries affected and to re-establish a general economic equilibrium.

M. Michalakopoulos: Since the declaration read this morning by the President does not appear upon the agenda, I shall not discuss it. I shall arrange with my Government to make known their reply to the invitation addressed to us.

As regards reparations, it is clear from this general discussion that all Governments cordially desire the final settlement of this question as being one of the causes which give rise to and prolong political and economic unrest throughout the world, which in its turn is the cause which has led to the crisis of confidence which is raging everywhere.

This crisis of confidence must, however, be eliminated in order that world commerce may resume its normal course and that the collapse of the economic and social system, as well as the downfall of civilisation itself, may be avoided.

The settlement of reparations particularly concerns Greece, whose financial position, already in a parlous condition, after the catastrophe in Asia Minor and the heavy debts which she was obliged to contract in order to meet the settlement and the needs of 1,400,000 refugees, is at the moment seriously menaced as a result of the fall in price of agricultural products, the stagnation which reigns in the mercantile marine, the prohibition of emigration and the measures taken by the majority of countries to restrict commerce.

I do not desire to take up your time by entering into details as regards the position of Greece in the reparations question. I think that a special commission will be set up, and I shall submit to it our point of view. But it must be understood that the Greek Government are sincerely animated by the desire to see an equitable settlement of the delicate question of reparations.

The President: That concludes the list of speakers in front of me, and the business of this Meeting is therefore over.

In order to consider the best way of continuing these discussions so as to obtain practical results as quickly as possible, I propose to adjourn the Conference until Tuesday, in order that Monday may be devoted to a discussion of this matter on the Committee of the Inviting Powers. I therefore propose to the representatives on the Committee of the Inviting Powers that we meet at the Château on Monday at 10 a.m. Is that agreed?

(Agreed.)

(The meeting rose at 5.10 p.m.)

*Great Britain and France: Notes of a Conversation held on
Monday, June 20, 1932, at 10 a.m.*

Present:

Great Britain: The Rt. Hon. J. Ramsay MacDonald; The Rt. Hon. Walter Runciman; Sir Frederick Leith-Ross, Chief Economic Adviser to His Majesty's Government; Mr. R. F. Wigram, First Secretary, British Embassy, Paris.

France: M. Herriot; M. Germain-Martin; M. Bizot, Assistant Director of General Movements of Funds.

Mr. MacDonald said that he had hoped that Mr. Chamberlain would have been able to be present at this conversation, as he had had the latest conversation with M. Germain-Martin on the 18th June. Mr. Chamberlain had asked him to apologise for his absence, but he was obliged to stay in bed.

M. Herriot expressed the hope that Mr. Chamberlain would soon be better.

Mr. MacDonald hoped to exchange with the French Ministers in complete confidence and with every frankness, views on the only large problem which had to be faced at Lausanne. Would the Conference decide to pursue the policy of cancellation or the policy of modification, *i.e.*, a scaling down? Was the Conference for cancellation or some other method? The British Treasury had concluded that whatever the political difficulties, which perhaps were greater in France than in England, the financial difficulties of any scaling down were enormous. If it were decided that Germany should pay x , we should have to go through the difficulty of apportioning that sum; not only would France and the United Kingdom have to agree on the point, but every creditor country in Europe. A double problem would, in fact, have to be faced, for it would have to be decided how the European countries, who were debtors, were going to pay, and how much. The British public would demand that Great Britain should not give up all payments due to her. Then it would be necessary to negotiate with America as to the proportion of the European debts to be paid to America.

Mr. MacDonald then referred to a cable in the 'Sunday Times' of the 19th June reporting that the United States Treasury was preparing a 'yardstick', which would determine how much France must pay to America, and how much Great Britain must pay to America in relation to the many considerations: wealth, balance of trade, gold, taxation, &c. That would be a most complicated business. France would have to pay so much; Great Britain so much; Italy so much. All this would end in confusion and much ill-feeling. Before there could be a final settlement with Germany all the Powers would be angry and at daggers drawn with one another. The political situation would be as bad as it could be, short of war. Then, when an arrangement was at last reached, very little would come out of it, for what Germany could pay, when distributed amongst the creditors, would be hardly worth sending a taxi-cab to fetch from the bank.

Mr. MacDonald wished to assure the French Ministers that the British Government had not come to a decision on this matter without much hesitation and thought. The British Government felt that the simplest thing was cancellation. The best way to face the political difficulties which would arise from cancellation, and which the two Governments could mutually help to overcome, would be to reach at the same time understandings on other subjects. For instance, a good armaments agreement might be reached at Geneva, which would help everyone both in Europe and America. A little later France and Great Britain might come to a good trade agreement. He was talking in great confidence that morning, but he wanted M. Herriot to know that he did not like Germany continually coming in and saying 'We want relief on this particular question'. By these means Germany got the United Kingdom on one side and France on the other. Then, when that particular question was settled, Germany said she had another grievance; and so France never felt secure and Great Britain never felt secure. Mr. MacDonald said he would like an agreement as to how far France and Great Britain would listen to pressure on these various questions from Germany. He believed that such an agreement would add very greatly to the security of both nations. A list of the points which such an agreement could cover might be elaborated.

France and Great Britain had got to handle the situation very carefully as regards America. Whether complete cancellation or a substantial scaling down was decided upon, the American situation constituted a rather delicate problem. Whatever was done at Lausanne there would be danger of the European debt settlement becoming an issue at the Presidential Elections, when there would be a great risk of the doors being closed against Europe.

M. Herriot said that it was not necessary for him to say that the French Delegation had come to Lausanne in the most conciliatory spirit. He thought he had already shown that. He understood well what Mr. MacDonald had said. The easiest way to solve a problem of this kind was to suppress it. For the French it was not possible, however, to suppress this matter by cancellation. At the very point of departure he observed the important fact that the positions of the different nations were not the same. He would say here what he had not liked to say at the Plenary Meeting of the Conference, that he quite realised that France seemed to be the most obstructive of the Powers; but she was, in fact, the most deeply committed.

At this stage M. Herriot handed in a table showing the net payments falling to the different countries. He said that this table would show why the French position was the most difficult, for the French receipts were the most important.

He would be quite frank, and he would say at once that, in spite of his desire to be conciliatory, the French Government could never go to cancellation. He had never tried to bargain with Mr. MacDonald, but he must make it clear that he could never go to cancellation. The French Delegation would try to show that cancellation would be bad for Europe and Germany. There was no French Government, not one, which could support before the

Chambers the thesis of cancellation. It was right for him to say so, and he would like to remind the British Ministers of the statement published by M. Bérenger, the President of the Foreign Affairs Commission of the Senate, on this point. Further, he would like to explain confidentially that he had recently received M. Blum and M. Vandervelde, who had urged him to consider the interests of democracy in Germany on this matter. He had asked M. Blum what [*sic*:? whether] he meant by this cancellation. M. Blum had said that if M. Herriot agreed to cancellation he would be the first to go into the Tribune of the Chamber to oppose him. No French Government could propose cancellation, and certainly not his Government.

At this stage M. Herriot indicated two articles by M. Bérenger, which had appeared in the 'Revue de Paris' and the 'Revue des Vivants'. He pointed out that M. Bérenger had stated that to free Germany from her total reparation debt would be abusive [*sic*]. M. Bérenger was for reduction, but not for cancellation; and this was the French point of view.

Mr. MacDonald asked whether the article which had appeared in the 'Populaire' on the 17th June did not indicate a change in M. Blum's point of view as described by M. Herriot.

There was a somewhat inconclusive interchange of remarks on this point, and M. Herriot was understood to say that the statement made to him by M. Blum and referred to above meant that M. Blum had threatened to overthrow him if he accepted even a settlement of reparations without a universal settlement.

M. Herriot said that he was firmly convinced that, from the purely economic point of view, cancellation would be a disaster for Europe. In his conversations with the most competent Germans and with the German Ambassador in Paris, no secret had been made of the fact that, in asking for cancellation of her public debt, Germany wished for facilities for the increase of her private debt in order to develop her industry. There was no doubt about this, and if anyone was under any misconception on the point this would be removed when Germany came to talk of private debts.

M. Herriot was convinced that if Germany was allowed to return to her policy of contraction of further private debts, she would open for herself the same difficulties as those which she had already experienced. He was deeply convinced that, though cancellation might be an easy solution, it would be imprudent both for Europe and for Germany.

Mr. Runciman [said that he] had listened carefully to M. Herriot's remarks. The British Government was anxious to reach a practical solution for now and for the future. In coming to the conclusion that anything which kept alive these payments would take Europe from disaster to disaster, the British Government was guided by practical considerations. Two things were clear. First, if the principle of capacity to pay was to be adopted, that principle must apply all round. Such a principle would be inconvenient to all countries, for it would be adopted by America, and would have to be adopted by Great Britain herself. It was not a good solution. Secondly, as regards M. Herriot's statement that Germany would use relief obtained from

State obligations to increase her private debts, he wished to say that the British Government was at the moment deeply concerned how these debts, and even the interest upon them, were to be met. The standstill agreement could not last for ever. The British Government did not feel apprehensive about the possibility of Germany being able to increase her private debts on a large scale. She had reached the limit. The British view was that further lending to Germany in the private market was not a practicable proposition.

Mr. MacDonald said that, at this stage particularly, he regretted the absence of the Chancellor of the Exchequer. This matter was particularly his business. He presumed that M. Herriot would have no objection to the communication of the notes of the meeting to Mr. Chamberlain.

M. Herriot agreed.

M. Germain-Martin wished to emphasise two points. First, he had noticed that the British Ministers seemed to consider that the French thesis was bound up with the theory of capacity of payment, and that it would therefore enable the United States to use that argument as well as other nations. He wished to explain that the French Government desired to maintain a payment from Germany fixed not according to her capacity but according to a certain *de facto* situation which would arise in the future, and as had been proposed by the Basle Experts. The French Delegation took their stand on facts. At the present moment of crisis Germany was not in a position to make payments. But if she was freed from that obligation for ever, would not the situation of other countries, of which Germany was the direct rival, be endangered? In two or three years' time, if the efforts of Great Britain and France succeeded in bringing the crisis to an end, Germany might well triumph over British and Belgian industry, and that would be disastrous.

M. Germain-Martin pointed out that Germany had holdings abroad of some 8 milliards of Reichsmarks, and some estimated these holdings at even 10 or 11 milliards. What was Germany doing now? She was taking control of certain French organisations, such as the Gnome Motor Works, which made engines for the French military aviation. Germany was taking control of undertakings of this kind. If she was given her complete freedom she would become an international danger. In maintaining some means of making her pay in the future the creditor Powers would be maintaining, suspended over her, a sort of counter-weight.

M. Germain-Martin did not dispute the fact that transfer was impossible at the moment. But the creditor Powers ought to maintain some sort of system which would avoid to a certain degree, though not altogether, the difficulties which he had just described. What was necessary was to find a means of doing that, whilst permitting the complete reconstruction of Germany. It was a matter of taking precautions and being prudent in regard to the future. He was sure that in acting thus they would be facilitating the eventual settlement with America. If everything was cancelled at Lausanne, America would say that Europe had cancelled everything there and tried to put the whole weight of the war on America, which would refuse to admit a unilateral settlement of this kind.

M. Herriot would shortly make a practical suggestion in order to try to help Mr. MacDonald. But now he would mention the argument against cancellation which he believed to be decisive. America did not want cancellation. They knew that in the most formal manner and he had in his hands the record of a conversation between Mr. Stimson and the French Ambassador in Washington on the subject. M. Herriot quoted the following extract from that record: 'They have said that America desires complete cancellation. That statement is not only false, but is also opposed to the truth. . . . The credit of a nation is a whole. Germany cannot repudiate her political obligations without alienating the confidence of her lenders.' If they cancelled at Lausanne America would not accept cancellation. They would then be obliged to do at the request of America what they had not done themselves. The time at Lausanne would have been wasted. This was for M. Herriot a decisive argument.

Mr. MacDonald said that he had also received a somewhat similar communication from Washington. Personally, he would not accept that as final. He would just continue negotiations. Let them not forget that up to now the attitude of America, both in public and private, had been that she did not want to interfere with Europe at all. Let Europe reach its own conclusions. Only then would America express her views. Mr. MacDonald then read the extract from the 'Sunday Times' (referred to above), which showed the preparations which America was making for an eventual Lausanne Conference. (*N.B.*—This extract stated that America would demand payments from the various European Powers in accordance with their capacity, *e.g.*, wealth, gold holdings, &c.)

M. Herriot said that the conclusion which he drew from the 'Sunday Times' extract was that America would not consent to cancellation; this was his own point of view. Consequently, the result of cancellation would be that the European creditors would receive nothing from Germany and pay all to the United States. On the 'yardstick' procedure France, as she had a large capacity of payment, would have to pay much to America. In those circumstances M. Herriot felt that the best he could do would be to jump into the Lake of Geneva.

Mr. MacDonald said that the circumstances were hopeless as long as the Lausanne Conference proceeded on the basis of German capacity to pay. The result would be that France would get x payments from Germany under a reduced scale. America would say that she had never admitted a connection between the German Debt and what her European debtors should pay her. If they were receiving x from Germany that would increase their capacity to pay her. But whether they received x from Germany or nothing, the fact would remain that Great Britain and France had contracted to pay their debts to her and America would ask them to pay according to their capacity and without a moratorium. Mr. MacDonald said that it was impossible to get out of that dilemma, and as long as they worked on the basis of capacity to pay the only means of escape was M. Herriot's suggestion of jumping into the Lake.